

SLADE PELLMAN & BIEHL  
COUNSELORS AT LAW

MELVIN S. SLADE  
STUART M. PELLMAN  
FREDERICK R. BIEHL

JOHN F. TRIGGS  
ELLIOTT D. HEFLER  
J. ANDREW RAHL, JR.  
SIDNEY M. SEGALL  
MICHAEL W. STAMM

No. **U-184A085**

**11963**

Date **JUL 2 1980** RECORDATION NO. .... Filed 1425

Fee \$ **200.00** **JUL 2 1980 - 2 20 PM**

**ICC Washington, D. C.**  
**INTERSTATE COMMERCE COMMISSION**

**JUL 2 2 11 PM '80**

**I.C.C.**  
**FEE OPERATION BR.** 540 MADISON AVENUE  
NEW YORK, N. Y. 10022  
TEL: (212) 838-6670

**11963**

July 1, 1980 RECORDATION NO. .... Filed 1425

**JUL 2 1980 - 2 20 PM**

**INTERSTATE COMMERCE COMMISSION**

Office of the Secretary  
Recordation Office  
Interstate Commerce Commission  
Twelfth St. and Constitution Avenue, N.W.  
Washington, D. C. 20423

RECORDATION NO. **11963 A** Filed 1425

**JUL 2 1980 - 2 20 PM**

**INTERSTATE COMMERCE COMMISSION**

Re: Recordation and Filing of Documents per-  
taining to 117 Railroad Boxcars Numbered  
as set forth in Exhibit A hereto

RECORDATION NO. **11963 A** Filed 1425

**JUL 2 1980 - 2 20 PM**

**INTERSTATE COMMERCE COMMISSION**

Dear Sirs:

In accordance with the provisions of Section 11303 of the Revised Interstate Commerce Act, 49 U.S.C. §11303, and Part 1116 of Title 49 of the Code of Federal Regulations, we request that the enclosed documents be recorded and filed by the Interstate Commerce Commission (the "Commission").

A. Description of the Documents and the Parties Thereto

Enclosed herewith are three originals of the documents listed below. We request that one original of each document be recorded and filed in the order listed below. We request that the additional originals be stamped by your office and returned to us.

- ① 1. Bill of Sale dated June 30, 1980 from Emons Leasing Co., Inc. to Maryland and Pennsylvania Railroad Company for 117 Box Cars described on Exhibit A;
- ② 2. Bill of Sale dated June 30, 1980 from Maryland and Pennsylvania Railroad Company to Emons Industries, Inc. for 117 Box Cars described on Exhibit A;
- ③ 3. Lease of Railroad Equipment dated as of *June 30* 1980 between Emons Industries, Inc., Lessor and Maryland and Pennsylvania Railroad Company, Lessee; and

*CT. Koppeler*

Office of the Secretary  
Recordation Office  
Page 2.

July 1, 1980

- (4) 4. Chattel Mortgage, Assignment and Security Agreement dated as of June 30, 1980 between Emons Industries, Inc. and The Chase Manhattan Bank, National Association, together with an Acknowledgement of Notice of Chattel Mortgage by Maryland and Pennsylvania Railroad Company, annexed thereto.

Please note that the Box Cars which are the subject of this transaction were previously subject to various Chattel Mortgages held by Central Penn National Bank which mortgages have been released immediately prior to the within transactions.

The names and addresses for the parties to this transaction are:

EMONS LEASING CO., INC.  
490 East Market Street  
York, Pennsylvania 17403

EMONS INDUSTRIES, INC.  
(same as above address)

MARYLAND AND PENNSYLVANIA RAILROAD COMPANY  
(same as above address)

THE CHASE MANHATTAN BANK,  
NATIONAL ASSOCIATION  
1441 Broadway  
New York, N. Y. 10013

B. Procedural Matters

It is hereby respectfully requested that each of the following names be inserted in the Commission Index established pursuant to Section 116.5(c) of Title 49 of the Code of Federal Regulations.

1. Maryland and Pennsylvania Railroad Company
2. Emons Industries, Inc.
3. Emons Leasing Co., Inc.
4. The Chase Manhattan Bank, National Association

A check in the amount of \$200 has been enclosed with this letter of transmittal to cover the recordation fee.

SLADE PELLMAN & BIEHL

Office of the Secretary  
Recordation Office  
Page 3.

July 1, 1980

Please stamp and return the enclosed copy of this letter of transmittal.

If there are any questions with respect to the enclosed or the transactions described therein, please telephone Elliott D. Hefler or Michael W. Stamm of this office, collect.

Very truly yours,

A handwritten signature in cursive script, reading "Slade Pellman & Biehl".

SLADE PELLMAN & BIEHL

SP&B:mrs  
enclosures

11964

RECORDATION NO. .... Filed 1425

JUL 2 1980 -3 00 PM

INTERSTATE COMMERCE COMMISSION

LEASE OF RAILROAD EQUIPMENT

Dated as of June 2, 1980

Between

POTLATCH CORPORATION

and

ST. MARIES RIVER RAILROAD COMPANY

and

E. A. LEASING CORPORATION

## LEASE OF RAILROAD EQUIPMENT

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### TABLE OF CONTENTS\*

	<u>Page</u>
PARTIES . . . . .	1
PREAMBLES . . . . .	1
SECTION 1.	
Delivery and Acceptance of Units . . . . .	1
SECTION 2.	
Rental . . . . .	2
SECTION 3.	
Term of Lease. . . . .	4
SECTION 4.	
Identification Marks . . . . .	4
SECTION 5.	
Taxes. . . . .	5
SECTIN 6.	
Maintenance; Casualty Occurrences; Insurance . . . . .	7
SECTION 7.	
Annual Reports . . . . .	11

---

\* This Table of Contents has been included in this document for convenience only and does not form a part of, or affect any construction or interpretation of this document.

Page

## SECTION 8.

Disclaimer of Warranties; Compliance with Laws and Rules; Indemnification . . . . .	12
--	----

## SECTION 9.

Default; Representations . . . . .	14
------------------------------------	----

## SECTION 10.

Return of Units upon Default . . . . .	19
--	----

## SECTION 11.

Assignment; Possession and Use . . . . .	21
--	----

## SECTION 12.

Renewal Option; Purchase Option. . . . .	23
--	----

## SECTION 13.

Return of Units upon Expiration of Term. . . . .	24
--	----

## SECTION 14.

Severability . . . . .	25
------------------------	----

## SECTION 15.

Recording; Expenses. . . . .	25
------------------------------	----

## SECTION 16.

Interest on Overdue Rentals. . . . .	25
--------------------------------------	----

## SECTION 17.

Notices. . . . .	26
------------------	----

## SECTION 18.

Effect and Modification of Lease . . . . .	27
--	----

Page

## SECTION 19.

Definitions. . . . .	27
----------------------	----

## SECTION 20.

Federal Income Taxes . . . . .	27
--------------------------------	----

## SECTION 21.

Execution. . . . .	35
--------------------	----

## SECTION 22.

Lessor's Rights To Perform . . . . .	35
--------------------------------------	----

## SECTION 23.

Law Governing. . . . .	36
------------------------	----

## SECTION 24.

Appraisal, Arbitration . . . . .	36
----------------------------------	----

SIGNATURES. . . . .	37
---------------------	----

TESTIMONIUM . . . . .	37
-----------------------	----

SCHEDULE A--Specifications of the Equipment . . . . .	39
---	----

SCHEDULE B--Casualty Value Percentages Schedule . . . . .	40
---	----

EXHIBIT A--Certificate of Commencement of Lease . . . . .	41
---	----

LEASE OF RAILROAD EQUIPMENT, dated as of June 2, 1980, between POTLATCH CORPORATION, a Delaware corporation (hereinafter called the Lessee), St. Maries River Railroad Company, an Idaho corporation and E. A. LEASING CORPORATION, a Connecticut corporation (hereinafter called the Lessor).

Under the Participation Agreement dated as of May 1, 1976 among Chicago, Milwaukee, St. Paul and Pacific Railroad Company ("Chicago Milwaukee"), First Security Bank of Utah, National Association, as Agent ("Agent"), E. A. Leasing Corporation ("Lessor") and The Provident Bank ("Investor"), the Lessor acquired 200 units of used railroad equipment which were reconstructed in accordance with the specifications of Lessor (the reconstructed hulks being hereinafter called the "Equipment" or a "Unit" or "Units"); the Agent acquired a security interest in the Units pursuant to a Transfer Agreement dated as of May 1, 1976; the Investor financed 79.17995% of the Purchase Price (as defined in the Reconstruction and Conditional Sale Agreement dated as of May 1, 1976 among the Agent, M.C.L. Equipment Company and Lessor) and the Lessor financed 20.82005% of the Purchase Price of the Equipment; and the Lessor and Chicago Milwaukee entered into a Lease of Railroad Equipment dated as of May 1, 1976 ("Prior Lease") which Prior Lease was assigned to the Agent pursuant to an Assignment of Lease and Agreement dated as of May 1, 1976.

The Prior Lease has been or simultaneously with the execution of this Lease will be terminated pursuant to a Lease Termination Agreement dated as of June 2, 1980 ("Termination Agreement") between Lessor and Chicago Milwaukee, with the acknowledgement and agreement by Potlatch Corporation and consented to by the Investor and the Agent pursuant to their respective Consent and Agreement dated as of June 2, 1980.

The Lessor now desires to re-lease to Lessee such number of units of Equipment as are delivered, accepted and settled for at the rentals and for the term and upon the conditions hereinafter provided and Lessor will assign certain of its rights under the new Lease of Railroad Equipment as security to the Agent pursuant to an Assignment of Lease dated as of the date hereof ("Lease Assignment") with the Lessee's Consent and Agreement dated as of the date hereof ("Consent").

NOW, THEREFORE, in consideration of the premises and of the rentals to be paid and the covenants hereinafter mentioned to be kept and performed by the Lessee, the Lessor hereby leases the Units to the Lessee upon the following terms and conditions:

Section 1. Delivery and Acceptance of Units. The Lessor will cause each Unit to be tendered to the Lessee at the point or points within the United States of America where such Unit is, and Lessee agrees to accept such tender of the Units on an "as is, where is" basis. This Lease shall become effective on the



date Lessor delivers to Lessee, and Lessee shall acknowledge and accept, a certificate of commencement of lease ("Certificate of Commencement of Lease") in the form attached hereto as Exhibit A, whereupon such Units shall be deemed to have been delivered to and accepted by the Lessee and shall be subject thereafter to all the terms and conditions of this Lease. Upon such tender, the Lessee will have already inspected the Units and Lessee hereby agrees to accept the Units as they are and represents that the Units are in good order, normal wear and tear excepted.

Section 2. Rental. The Lessee agrees to pay to the Lessor as rental for each Unit subject to this Lease 24 quarterly payments. The 24 quarterly payments are payable in advance on March 1, June 1, September 1 and December 1 in each year, commencing September 1, 1980 to and including June 1, 1986. The 24 quarterly rental payments with respect to each Unit delivered and accepted hereunder and under the Reconstruction and Conditional Sale Agreement, dated as of May 1, 1976 among First Security Bank of Utah, National Association, not in its individual capacity but solely as Agent, M.L.C. Equipment Company and Lessor, (hereinafter called the "Security Document," which Security Document, to the extent necessary to the performance of this Lease is incorporated herein for each Unit subject to this Lease, and Lessee hereby acknowledges the existence of the Security Document and agrees to be bound by its terms) shall each be in an amount equal to 3.748222% of the purchase price (hereinafter the "Purchase Price" which is defined to be the sum of \$7,330) of the Units subject to this Lease. The rentals and Casualty Value percentages shall be sufficient to satisfy the obligations of the Lessor under the Security Document, notwithstanding any limitation of liability contained therein.

If any of the rental payment dates referred to above is not a business day the rental payment otherwise payable on such date shall be payable on the next succeeding business day. The term "business day" as used herein means a calendar day, excluding Saturdays, Sundays and any other day on which banking institutions in New York, New York, or Salt Lake City, Utah, are authorized or obligated to remain closed.

The Lessor irrevocably (so long as any Conditional Sale Indebtedness, as defined in the Security Document, interest thereon or other obligations provided for in the Security Document shall remain outstanding or unpaid) instructs the Lessee to make, and the Lessee agrees to make, all the payments provided for in this Lease (except as otherwise provided in Section 20 hereof) for the account of the Lessor or its assigns, in care of the Agent at 79 South Main Street, Salt Lake City, Utah 84111, Attention: Trust Department, Corporate Division, not later than 11:00 a.m., Salt Lake City, Utah, time, on the date upon which such payments are due and payable. It is understood and agreed that the Agent shall apply such payments first to satisfy the obligations of the

Lessor under the Security Document (subject to the limitations contained in the last paragraph of Article 3 of the Security Document) and the obligations of the Lessee to the Agent and the Investor pursuant to the third paragraph of Section 8 hereof and, second, so long as no event of default or event which with the lapse of time and/or demand provided for in the Security Document could constitute an event of default under the Security Document shall have occurred and be continuing, shall pay any balance not later than the first business day following such receipt from the Lessee by wire transferring immediately available funds to such bank in the continental United States for the account of the Lessor as the Lessor from time to time shall have directed the Agent in writing, and if no such direction shall have been given, by check of the Agent payable to the order of the Lessor and mailed to the Lessor in the manner provided in Section 17 hereof (with written confirmation of the disbursement of any such balance to be given by the Agent to the Lessor by mail in the manner provided in Section 17 hereof). The Lessee agrees to make such payment provided for herein as contemplated by this paragraph in immediately available funds in the city where such payment is to be made.

This Lease is a net lease and the Lessee shall not be entitled to any abatement of rent, reduction thereof or setoff against rent, including, but not limited to, abatements, reductions or setoffs due or alleged to be due to, or by reason of, any past, present or future claims of or counterclaims of the Lessee against the Lessor under this Lease or under the Security Document, or for or against the prior user or lessee of the Equipment under the Prior Lease or the Builder (as defined in the Security Document) or the Agent or otherwise; nor, except as otherwise expressly provided herein, shall this Lease terminate, or the respective obligations of the Lessor or the Lessee be otherwise affected, by reason of any defect in or failure of title of the Lessor to any of the Units or damage to or loss of possession or loss of use or destruction of all or any of the Units from whatsoever cause, any liens, encumbrances or rights of others with respect to any of the Units, the prohibition of or other restriction against Lessee's use of all or any of the Units, the taking or requisitioning of any of the Units by condemnation or otherwise, the interference with such use by any person or entity, the invalidity or unenforceability or lack of due authorization of this Lease, any insolvency, bankruptcy, reorganization or similar proceeding against the Lessee, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events in the manner and at the times herein provided unless the obligation to pay the same shall be terminated pursuant to the express provisions of this Lease. To the extent permitted by applicable law, the Lessee hereby waives any and all rights which it may now

have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the lease of any of the Units except in accordance with the express terms hereof. Each rental or other payment made by the Lessee hereunder shall be final and the Lessee shall not seek to recover all or any part of such payment from the Lessor for any reason whatsoever.

Section 3. Term of Lease. The term of this Lease shall commence upon the the date of delivery of the Certificate of Commencement of Lease, subject to the provisions of Sections 6, 9 and 12 hereof, and shall terminate on the last day of the second month following the date on which the final advance payment of rent in respect thereof is due hereunder.

Notwithstanding anything to the contrary contained herein, all rights and obligations of the Lessee under this Lease and in and to the Units are subject to the rights of the Agent under the Security Document. If an event of default should occur under the Security Document, the Agent may terminate this Lease (or rescind its termination), all as provided therein.

Section 4. Identification Marks. The Lessee, so long as this Lease shall remain in effect, will cause each Unit to be kept numbered with the road number set forth in Schedule A hereto, which Schedule A shall recite the current road numbers then associated with each Unit, and will keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of such Unit, the legend required by Article 8 of the Security Document or other appropriate markings designated by the Agent, with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect Lessor's and the Agent's title to and property in such Unit and the rights of the Lessor under this Lease and of the Agent under the Security Document. The Lessee will not place any such Unit in operation or exercise any control or dominion over the same until such legend shall have been so marked on both sides thereof and will replace promptly any such legend which may be removed, obliterated, defaced or destroyed. The Lessee shall be obligated to change the road numbers of the Units and to substitute therefor the Lessee's road numbers and file, record and deposit a statement of such new numbers to be substituted therefor in all public offices where this Lease or the Security Document shall have been filed, recorded and deposited, including but not limited to the Interstate Commerce Commission and the Association of American Railroads. The Lessee shall file a statement of the new numbers to be substituted therefor with the Agent and the Lessor and the Lessee shall have furnished the Agent and the Lessor an opinion of counsel to that effect and to the further effect that such filing, recordation and deposit will protect the Agent's and the Lessor's interests in such Units and that no filing, recording, depositing or giving of notice with or to any other Federal, state or local government

or agency thereof is necessary to protect the interests of the Agent and the Lessor in such Units.

Except as above provided, the Lessee, so long as this Lease shall remain in effect, will not allow the name of any person, association or corporation to be placed on the Units as a designation that might be interpreted as a claim of ownership; provided, however, that the Lessee may cause the Units to be lettered with the names or initials or other insignia customarily used by the Lessee or its affiliates on railroad equipment used by them of the same or a similar type for convenience of identification of their rights to use the Units as permitted under this Lease and Lessee may cause the Units to be repainted provided that after repainting said Units conform to this Section 4.

Section 5. Taxes. All payments to be made by the Lessee hereunder will be free of expense to the Lessor for collection or other charges and will be free of expense to the Lessor with respect to the amount of any local, state, Federal or foreign taxes (other than any United States Federal income tax and, to the extent that the Lessor received credit therefor against its United States Federal income tax liability, any foreign income tax payable by the Lessor in consequence of the receipt of payments provided herein and other than the aggregate of all state and city income taxes and franchise taxes measured by net income based on such receipts or gross receipts taxes other than gross receipts taxes in the nature of sales or use taxes, up to the amount of any such taxes which would be payable to the state and city in which the Lessor has its principal place of business without apportionment to any other state or city, except any such tax which is in substitution for or relieves the Lessee from the payment of taxes which it would otherwise be obligated to pay or reimburse as herein provided), assessments, documentary stamp taxes, or license fees and any charges, fines, penalties or interest in connection therewith (hereinafter called impositions) now or hereafter levied or imposed upon or in connection with or measured by this Lease or any sale, rental, use, payment, shipment, delivery or transfer of title under the terms hereof or the Security Document, all of which impositions the Lessee assumes and agrees to pay on demand in addition to the payments to be made by it provided for herein. Lessee agrees to pay or cause to be paid, hold harmless and indemnify the Lessor, the Agent and the Investor and their successors and assigns, against all local, state, Federal or foreign taxes, fees, withholdings, levies, imposts, duties, assessments, charges, license and registration fees and other governmental charges of any nature whatsoever, incurred or associated with the transfer of this Lease and the Equipment herewith to the Lessee hereunder, including, without limitation, sales and use taxes of the State of Idaho. The Lessee will also pay promptly all impositions which may be imposed upon any Unit or for the use or operation thereof or upon the earnings arising therefrom or upon the Lessor

solely by reason of its ownership thereof (other than any United States Federal income tax and, to the extent that the Lessor received credit therefor against its United States Federal Income Tax liability, any foreign income tax payable by the Lessor in consequence of the receipt of payments herein and other than the aggregate of all state and city income taxes and franchise taxes measured by net income based on such receipts or gross receipts taxes other than gross receipts taxes in the nature of sales or use taxes, up to the amount of any such taxes which would be payable to the state and city in which the Lessor has its principal place of business without apportionment to any other state or city, except any such tax which is in substitution for or relieves the Lessee from the payment of taxes which it would otherwise be obligated to pay or reimburse as herein provided) and will keep at all times all and every part of such Unit free and clear of all impositions which might in any way affect the title of the Lessor or result in a lien upon any such Unit; provided, however, that the Lessee shall be under no obligation to pay any impositions so long as it is contesting in good faith and by appropriate legal proceedings such impositions and the nonpayment thereof does not, in the opinion of the Lessor, adversely affect the title, property or rights of the Lessor hereunder or under the Security Document. If any impositions shall have been charged or levied against the Lessor directly and paid by the Lessor, the Lessee shall reimburse the Lessor promptly on presentation of an invoice therefor; provided, however, that the Lessee shall not be obligated to reimburse the Lessor for any impositions so paid unless the Lessor shall have been legally liable with respect thereto (as evidenced by an opinion of counsel for the Lessor), or unless the Lessee shall have approved the payment thereof or unless such payment shall have in the opinion of counsel for the Lessor been necessary in order to satisfy a lien threatened or placed against any Unit.

In the event that the Lessor shall become obligated to make any payment to the Agent pursuant to Article 5 of the Security Document not covered by the foregoing paragraph of this Section 5, the Lessee shall pay such additional amounts (which shall also be deemed impositions hereunder) to the Lessor as will enable the Lessor to fulfill completely its obligations pursuant to said Article 5.

In the event any reports with regard to impositions are required to be made on the basis of individual Units or otherwise, the Lessee will, where permitted to do so under applicable rules or regulations, make and timely file such reports in such manner as to show the interest of the Lessor and the Agent in the Units as shall be satisfactory to the Lessor and the Agent or, where not so permitted, will notify the Lessor and the Agent of such requirement and will prepare and deliver such reports to the Lessor and the Agent within a reasonable time prior to the time such reports are to be filed in such manner as shall be satisfactory to the Lessor and the Agent.

In the event that, during the continuance of this Lease, the Lessee becomes liable for the payment or reimbursement of any impositions, pursuant to this Section 5, such liability shall continue, notwithstanding the expiration of this Lease, until all such impositions are paid or reimbursed by the Lessee.

SECTION 6. Maintenance; Casualty Occurrences; Insurance.

The Lessee at its own expense will maintain and service each Unit so that each Unit will remain (a) in as good operating condition as when delivered (ordinary wear and tear excepted), (b) in compliance with any and all applicable laws and regulations including, but not limited to, any applicable rules of the American Association of Railroads and regulations of the Interstate Commerce Commission and (c) suitable for immediate purchase or lease and use by a Class I line-haul railroad (not then or prospectively a debtor in any insolvency, bankruptcy or reorganization proceedings) in the event of resale or re-lease upon an Event of Default hereunder. Lessee hereby acknowledges that some of the Units do not adhere to the specifications, requirements and standards of clauses (a), (b) and (c) in the preceding sentence and Lessee hereby agrees to make, within a reasonable period of time, the necessary maintenance and repairs to such Units in order that the Units will conform to all the specifications, requirements and conditions of this Section 6, including but not limited to the requirements and interchange standards of the Association of American Railroads, the Interstate Commerce Commission and the Department of Transportation, provided, however, Lessee agrees to make the necessary maintenance and repairs to any Unit or Units not meeting the specifications, requirements and conditions of this Section 6 prior to use of such Unit or Units in interchange. In any event, unless Lessee shall have exercised its option to purchase the Units hereunder, Lessee agrees to make such maintenance and repairs to the Units so that they conform to the specifications, requirements and conditions of this Section 6 prior to the termination of this Lease. In no event shall any Unit be maintained or scheduled for maintenance on a basis less frequent than the maintenance or maintenance scheduling practices employed as of the date hereof by the Lessee for similar equipment owned by the Lessee.

In the event that any Unit shall be or become lost, stolen, destroyed, worn out or irreparably damaged (excluding such damages resulting from Lessee's failure to maintain such unit in accordance with the provisions of this Lease), from any cause whatsoever, or taken or requisitioned by a condemnation or otherwise by the United States Government for a period which shall exceed the then remaining term of this Lease (or, if such taking, requisition or condemnation shall occur during a renewal term, for a period which shall exceed the then remaining renewal term) or by any other government or governmental entity resulting in loss of possession by the Lessee for a period of ninety (90) consecutive days (such occurrences being hereinafter called "Casualty Occurrences") prior to the return of such Unit in the

manner set forth in Section 10 or 13 hereof, the Lessee shall promptly (but in any event within fifteen (15) days after such Casualty Occurrence) and fully notify the Lessor and the Agent with respect thereto. On the date for the payment of rent hereunder with respect to such Unit next succeeding the delivery of such notice, the Lessee shall pay to the Lessor an amount equal to the Casualty Value (as hereinafter defined) of such Unit then due and payable, plus the rental payment or payments in respect of such Unit then due and payable on such rental payment date. Upon the making of such payment by the Lessee in respect of any Unit, the rental for such Unit shall cease to accrue, the term of this Lease as to such Unit shall terminate and (except in the case of the loss, theft, complete destruction of such Unit) the Lessor shall be entitled to recover possession of such Unit. The Lessor hereby appoints the Lessee its agent (in a fiduciary capacity) to dispose of any Unit suffering a Casualty Occurrence or any component thereof, on such terms and conditions as the Lessor may agree to. Provided that the Lessee has previously paid the Casualty Value to the Lessor and provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing, the Lessee shall be entitled to the net proceeds of such sale to the extent they do not exceed the Casualty Value of such Unit, and shall pay any excess to the Lessor. If any such Event of Default (or event which after notice or lapse of time or both would become an Event of Default) has occurred and is continuing, the Lessee shall promptly pay all such proceeds to the Lessor. The Lessee will pay all costs and expenses in connection with the sale of any Unit pursuant to a Casualty Occurrence.

The Casualty Value of each Unit as of the rent commencement date and as of any rental payment date shall be that percentage of the aggregate Purchase Price of such Unit as is set forth in Schedule B hereto opposite such date.

Whenever any Unit shall suffer a Casualty Occurrence after the final payment of rent in respect thereof is due pursuant to Section 2 or Section 12 hereof and before such Unit shall have been returned in the manner provided in Section 13 hereof, the Lessee shall promptly and fully notify the Lessor with respect thereto and shall pay to the Lessor on the rental payment date next succeeding such notice an amount equal to the Casualty Value of such Unit, which shall be an amount equal to 20% of the Purchase Price of such Unit; provided, however, that in the event the term of this Lease shall have been extended pursuant to Section 12 hereof, then the applicable Casualty Value shall be the lesser of the fair market value of such Unit or \$4,300, as of the rental payment date on or next preceding the date of such Casualty Occurrence, as agreed upon by the Lessor and the Lessee, or upon a failure to agree, determined in accordance with the appraisal procedure set forth in Section 24 hereof. Upon the making of any such payment by the

Lessee in respect of any Unit (except in the case of the loss, theft or complete destruction of such Unit) the Lessor shall be entitled to recover possession of such Unit. The Lessor hereby appoints the Lessee its agent (in a fiduciary capacity) to dispose of any Unit suffering a Casualty Occurrence or any component thereof on such terms and conditions as the Lessor may agree to. Provided that the Lessee has previously paid the Casualty Value to the Lessor and provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing, the Lessee shall be entitled to the proceeds of such sale to the extent they do not exceed the Casualty Value of such Unit, and shall pay any excess to the Lessor.

In the event of the requisition (other than a requisition which constitutes a Casualty Occurrence) for use by the United States Government or by any other government or governmental entity (hereinafter collectively called the "Government") of any Unit during the term of this Lease or any renewal thereof, all of the Lessee's obligations (including without limitation the obligation to pay rent) under this Lease with respect to such Unit shall continue to the same extent as if such requisition had not occurred, except that if such Unit is returned by the Government at any time after the end of the term of this Lease or any renewal thereof, the Lessee shall be obligated to return such Unit to the Lessor pursuant to Section 10 or Section 13 hereof, as the case may be, promptly upon such return by the Government rather than at the end of the term of this Lease or any renewal thereof, but the Lessee shall in all other respects comply with the provisions of said Section 10 or Section 13, as the case may be, with respect to such Unit. All payments received by the Lessor or the Lessee from the Government for the use of such Unit during the term of this Lease or renewal thereof shall be paid over to, or retained by, the Lessee, provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing; and all payments received by the Lessor or the Lessee from the Government for the use of such Unit during the term of this Lease or renewal thereof shall be paid over to, or retained by, the Lessee, provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing; and all payments received by the Lessor or the Lessee from the Government for the use of such Unit after the term of this Lease or any renewal thereof, shall be paid over to, or retained by, the Lessor.

Except as hereinabove in this Section 6 provided, the Lessee shall not be released from its obligations hereunder in the event of, and shall bear the risk of, any Casualty Occurrence to any Unit from and after delivery and acceptance thereof by the Lessee hereunder.



The Lessee will, at all times prior to the return of the Units to the Lessor, in accordance with the terms of this Lease (including the storage period provided under Sections 10 and 13 hereof) at its own expense, cause to be carried and maintained property insurance in respect of the Units at the time subject hereto, and the public liability insurance, in such amounts and against such risks and on such terms and conditions as are satisfactory to the Lessor and the Agent, and in any event, not less comprehensive in amounts and against risks customarily insured against by the Lessee in respect of similar equipment owned by it, but in no event shall such coverage be for amounts or against risks less than the prudent industry standard, and the benefits thereof shall be payable to the Lessor, the Agent and the Lessee, as their interests may appear, so long as the indebtedness, if any, evidenced by the Security Document shall not have been paid in full, and thereafter to the Lessor and the Lessee as their interests may appear, it being understood that the Lessee may self insure with respect to property insurance if such is its normal practice with respect to similar equipment. All policies with respect to such insurance shall name the Lessor (both in its individual and fiduciary capacity), and the Agent as additional name insureds and loss payees, as their interests may appear, shall provide for at least thirty (30) days' prior written notice to the Lessor, and the Agent, in the event of cancellation, shall include waivers by the insurer of all claims for premiums against the Lessor, and the Agent during such thirty (30) day period, and shall include waivers of all subrogation rights with respect to the Lessor, the Owner and the Agent. The Lessee shall, on or prior to the closing date hereof and not later than April 1 of each year, commencing April 1, 1981, furnish to the Lessor, and the Agent a certificate signed by a duly authorized officer specifying the policy numbers, amounts and expiration dates of all insurance policies then in effect in accordance with this paragraph, the names of the issuing companies, and the Units (if any) and risks covered thereby. With respect to all insurance that is not self insured by the Lessee hereunder, Lessee shall furnish to the Lessor, and the Agent, on the dates mentioned in the preceding sentence, a certificate of insurance of an independent insurance broker acceptable to the Lessor and the Agent evidencing the maintenance of the insurance required hereunder and shall furnish certificates evidencing renewal fifteen (15) days prior to the expiration date of such policy or policies. If the Lessor shall receive any insurance proceeds or condemnation payments in respect of a Unit suffering a Casualty Occurrence, the Lessor shall, subject to the Lessee's having made payment of the Casualty Value in respect of such Unit and provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing, pay such proceeds or condemnation payments to the Lessee up to an amount equal to the Casualty Value with respect to a Unit paid by the Lessee and any balance of such proceeds or condemnation payments shall remain the property

of the Lessor. All insurance proceeds received by the Lessor in respect of any Unit not suffering a Casualty Occurrence shall be paid to the Lessee upon proof satisfactory to the Lessor that any damage to such Unit in respect of which such proceeds were paid has been fully repaired so as to comply with the provisions of the first paragraph of this Section 6, provided no event of Default (or other event which after notice or lapse of time or both would become and Event of Default) shall have occurred and be continuing.

SECTION 7. Annual Reports. On or before March 31 in each year, commencing with the calendar year 1981, the Lessee will cause to be furnished to the Lessor, the Agent, the Investor and Mandate Financial Corporation (at the addresses shown in Section 17 hereof or, as to the Investor, at the address furnished to the Lessee thereby), a certificate signed by the Chief Executive Officer, the Chief Operating Officer, the Chief Mechanical Officer or the Vice President in charge of the operation of the Units of the Lessee or another qualified engineer satisfactory to the Lessor and the Agent (a) setting forth, as of the preceding December 31 the amount, description and numbers of all Units then leased hereunder an/or covered by the Security Document, the amount, descriptions and numbers of all Units that have suffered a Casualty Occurrence during the preceding 12 months (or since the date of this Lease in the case of the first such statement) or then withdrawn from use pending such repairs (other than running repairs) and setting forth such other information regarding the condition and state of repair of the Units as the Lessor or the Agent may reasonably request (including a description and the cost of all additions, modifications or improvements made to the Units in the preceding year), and (b) stating that all of the Units are being maintained in accordance with all rules applicable to similar equipment subject to the interchange rules of the Association of American Railroads and in accordance with all requirements of the Federal Railroad Administrator and (c) in the case of all Units repainted or repaired during the period covered by such statement, the markings required by Section 4 hereof and by Article 8 of the Security Document shall have been preserved or replaced. The Lessor shall have the right at its cost, risk and expense, by its authorized representatives, to inspect the Units and the Lessee's records with respect thereto at such reasonable times as the Lessor may request during the continuance of this Lease.

The Lessee will furnish to the Lessor and the Investor (i) within 45 days after the end of each of the first three quarterly fiscal periods of the Lessee, balance sheets and statements of income and retained earnings of the Lessee and its subsidiaries as of the close of such periods, in comparative form with the corresponding fiscal period in the preceding fiscal year, in reasonable detail and certified by any Vice President or the Treasurer of the Lessee and (ii) within 120 days after the close of each of the fiscal years of the Lessee, balance

sheets for the Lessee and its consolidated subsidiaries as of the close of such fiscal years, together with the related statements of income and retained earnings and source and application of funds for such fiscal years, in comparative form with the preceding fiscal year, all in reasonable detail and certified by a recognized national firm of independent public accountants. The Lessee will also furnish to the Lessor, the Agent and the Investor (i) within 120 days after the close of each fiscal year of the Lessee a certificate of the Lessee, signed by a principal financial officer, to the effect that the signer has reviewed the relevant terms of this Lease, and has made, or caused to be made under his supervision, a review of the transactions and condition of the Lessee during the preceding fiscal year, and that such review has not disclosed the existence during such period, nor does the signer have knowledge of the existence, as at the date of such certificate, of any condition or event which constitutes a default, an Event of Default or event which, after notice or lapse of time or both, would constitute such a default or Event of Default or, if any such condition or event existed or exists, specifying the nature and period of existence thereof and what action the Lessee has taken or is taking or proposes to take with respect thereto and (ii) from time to time such other information as any of them may reasonably request (including, but not limited to, the public reports of the Lessee filed with the Interstate Commerce Commission on Form R-1 or any public reports filed with the Securities and Exchange Commission).

SECTION 8. Disclaimer of Warranties; Compliance with Laws and Rules; Indemnification. THE LESSOR MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE DESIGN OR CONDITION OF, OR AS TO QUALITY OF THE MATERIAL, EQUIPMENT OR WORKMANSHIP IN, THE UNITS DELIVERED TO THE LESSEE HEREUNDER, AND THE LESSOR MAKES NO WARRANTY OF MERCHANTABILITY OR FITNESS OF THE UNITS OR ANY COMPONENT THEREOF, OR ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO ANY UNIT, EITHER UPON DELIVERY THEREOF TO THE LESSEE, OR OTHERWISE, it being agreed that all such risks, as between the Lessor and the Lessee, are to be borne by the Lessee; but the Lessor hereby irrevocably appoints and constitutes the Lessee its agent and attorney-in-fact during the term of this Lease to assert and enforce from time to time, in the name of and for the account of the Lessor and/or the Lessee, as their interest may appear, at the Lessee's sole cost and expense, whatever claims and rights the Lessor may have against the Builder under the provisions of Article 12 of the Security Document; provided, however, that if at any time an Event of Default shall have occurred and be continuing, the Lessor may assert and enforce, at the Lessee's sole cost and expense, such claims and rights. The Lessor shall have no responsibility or liability to the Lessee or any other person with respect to any of the following: (i) any liability, loss or damage caused or alleged to be caused directly or indirectly by any Unit or by

any inadequacy thereof or deficiency or defect therein or by any other circumstances in connection therewith; (ii) the use, operation, or performance of any Unit or any risks relating thereto; (iii) any interruption of service, loss of business or anticipated profits or consequential damages; or (iv) the delivery, operation, servicing, maintenance, repair, improvement or replacement of any Unit. Lessee expressly recognizes that the Units have been used and were subject to the Prior Lease and that Lessee accepts delivery of said Units on an "as is, where is" basis. Lessee's acceptance of a Certificate of Commencement of Lease shall be conclusive evidence as between the Lessee and the Lessor that all Units described therein are in all the foregoing respects satisfactory to the Lessee, and the Lessee will not assert any claim of any nature whatsoever against the Lessor based on any of the foregoing matters.

The Lessee agrees, for the benefit of the Lessor and the Agent, to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each Unit) with all applicable laws of the jurisdictions in which its operations involving the Units may extend, with the interchange rules of the Association of American Railroads and with all lawful rules of the Department of Transportation, the Interstate Commerce Commission and any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Units, to the extent that such laws and rules affect the title, operation or use of the Units, and in the event that, prior to the expiration of this Lease or any renewal thereof, such laws or rules require any alteration, replacement, addition or modification of or to any part of any Unit, the Lessee will conform therewith at its own expense; provided, however, that the Lessee may with the prior written consent of the Lessor and the Agent, which consent shall not be unreasonably withheld, at its own expense, in good faith, contest the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Lessor or the Agent, adversely affect the property or rights of the Lessor or the Agent, respectively, under this Lease or under the Security Document. The Lessee, at its own cost and expense, may furnish additions, modifications and improvements to the Units during the term of this Lease provided that such additions, modifications and improvements are readily removable without causing material damage to the Units. The additions, modifications and improvements made by the Lessee under the first sentence of this paragraph shall be owned by the Lessor, and the additions, modifications and improvements made by the Lessee under the second sentence of this paragraph shall be owned by the Lessee.

The Lessee agrees to indemnify, protect and hold harmless the Lessor, the Agent and the Investor from and against all

losses, damages, injuries, liabilities (including, without limitation, strict or absolute liability in tort or by statute imposed), claims and demands whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, but not limited to, reasonable counsel fees and expenses, patent liabilities, penalties and interest, arising out of or as a result of (i) the entering into or the performance of the Security Document, or this Lease, or any of the instruments or agreements referred to therein or herein or contemplated thereby or hereby, (ii) the ownership of any Unit, (iii) the ordering, acquisition, use, operation, condition, reconstruction, purchase, delivery, rejection, storage or return of any Unit, (iv) any accident in connection with the operation, use, condition, reconstruction, possession, storage or return of any Unit resulting in damage to property or injury or death to any person, except as otherwise provided in Section 13 of this Lease or (v) the transfer of title to the Units by the Agent pursuant to any provision of the Security Document. The indemnities arising under this paragraph shall continue in full force and effect notwithstanding the delivery of the Units or the full payment and performance of all obligations under this Lease or the expiration or termination of the term of this Lease, provided, however, that the foregoing indemnifications shall not apply to any failure of payment of any of the principal or interest on the Conditional Sale Indebtedness (as that term is defined in the Security Document) or to any loss, damage, injury, liability, claim or demand directly resulting from the action or omission to act of the Lessor, Agent or the Investor.

The Lessee agrees to prepare and deliver to the Lessor within a reasonable time prior to the required date of filing (or, to the extent permissible, file on behalf of the Lessor) any and all reports (other than income tax returns) to be filed by the Lessor with any Federal, state or other regulatory authority by reason of the ownership by the Lessor or the Agent of the Units or the leasing thereof to the Lessee.

SECTION 9. Default; Representations. If, during the continuance of this Lease, one or more of the following events (each such event being herein sometimes called an Event of Default) shall occur:

A. default shall be made in the payment of any amount provided for in Sections 2, 6 or 12 hereof and such default shall continue for ten days;

B. the Lessee shall make or permit any unauthorized assignment or transfer of this Lease, or any interest therein, or of the right to possession of the Units, or any thereof;

C. default shall be made in the observance or performance of any other of the covenants, conditions, representations, and agreements on the part of the Lessee contained herein and such default shall continue for 30 days after written notice from the Lessor or the Agent to the Lessee specifying the default and demanding that the same be remedied;

D. a petition for reorganization under Section 77 of the Bankruptcy Act or under any other provision of Title Eleven of the United States Code as now constituted or as may hereafter be amended, shall be filed by or against the Lessee and, unless such petition shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease, and/or the Consent, as the case may be, shall not have been duly assumed in writing, pursuant to a court order or decree, by a trustee or trustees appointed in such proceedings (whether or not subject to ratification) in such manner that such obligations shall have the same status as obligations incurred by such trustee or trustees, within 30 days after such appointment, if any, or 60 days after such petition shall have been filed, whichever shall be earlier;

E. any proceedings shall be commenced by or against the Lessee for any relief which includes, or might result in, any modification of the obligations of the Lessee under this Lease, or the consent under any bankruptcy or insolvency laws, or laws relating to the relief of debtors, readjustments of indebtedness, reorganizations, arrangements, compositions or extensions (other than a law which does not permit any readjustments of the obligations of the Lessee hereunder, or under the Consent), and, unless such proceedings shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease, and/or under the Consent, as the case may be, shall not have been and shall not continue to have been duly assumed in writing, pursuant to a court order or decree, by a trustee or trustees or receiver or receivers appointed (whether or not subject to ratification) for the Lessee or for the property of the Lessee in connection with any such proceedings in such manner that such obligations shall have the same status as obligations incurred by such a trustee or trustees or receiver or receivers, within 30 days after such appointment, if any, or 60 days after such proceedings shall have been commenced, whichever shall be earlier;

then, in any such case, the Lessor, at its option, may:

(a) proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Lessee of the applicable covenants of this Lease or to recover damages from the breach thereof; or

(b) by notice in writing to the Lessee terminate this Lease, whereupon all rights of the Lessee to the use of the Units shall absolutely cease and terminate as though this Lease had never been made, but the Lessee shall remain liable as herein provided; and thereupon the Lessor may by its agents enter upon the premises of the Lessee or other premises where any of the Units may be and take possession of all or any of such Units and thenceforth hold, possess, sell, operate, lease to others and enjoy the same free from any right of the Lessee, or its successors or assigns, to use the Units for any purposes whatever and without any duty to account to the Lessee for such action or inaction or for any proceeds arising therefrom; but the Lessor shall, nevertheless, have a right to recover from the Lessee any and all amounts which under the terms of this Lease may then be due which may have accrued to the date of such termination (computing the rental for any number of days less than a full rental period by multiplying the rental for such full rental period by a fraction of which the numerator is such number of days and the denominator is the total number of days in such full rental period) and also to recover forthwith from the Lessee as damages for loss of the bargain and not as a penalty, whichever of the following amounts the Lessor, in its sole discretion, shall specify: (x) a sum, with respect to each Unit, equal to the excess of the present value, at the time of such termination, of the entire unpaid balance of all rental for such Unit which would otherwise have accrued hereunder from the date of such termination to the end of the term of this Lease as to such Unit over the then present value of the rental which the Lessor reasonably estimates to be obtainable for the Unit during such period, such present value to be computed in each case on the basis of a 5.55% per annum discount, compounded quarterannually from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated; or (y) an amount equal to the excess, if any, of the Casualty Value as of the rental payment date on or next preceding the date of termination over the amount the Lessor reasonably estimates to be the sale value of such Unit at such time; provided, however, that in the event the Lessor shall have sold any Unit, the Lessor, in lieu of collecting any amount payable to the Lessor by the Lessee pursuant to the preceding clauses

(x) and (y) of this part (b) with respect to such Unit, may, if it shall so elect, demand that the Lessee pay the Lessor and the Lessee shall pay to the Lessor on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty, an amount equal to the excess, if any, of the Casualty Value for such Unit, as of the rental payment date on or next preceding the date of termination over the net proceeds of such sale.

In addition, the Lessee shall be liable, except as otherwise provided above, for any and all unpaid amounts due hereunder before, during or after the exercise of any of the foregoing remedies and for all reasonable attorneys' fees and other costs and expenses incurred by reason of the occurrence of any Event of Default or the exercise of the Lessor's remedies with respect thereto, including all costs and expenses incurred in connection with the return of any Unit and the cost of any indemnity provided the Agent by the Investor.

The Lessee represents and warrants as follows:

(a) The Lessee has not directly or indirectly and will not offer any Conditional Sale Indebtedness or other securities to, or solicit any offer to buy any thereof from any other person or approach or negotiate with any other person in respect thereof, so as to bring the sale of the Conditional Sale Indebtedness within the provisions of Section 5 of said Securities Act of 1933, as amended.

(b) The Lessee has furnished to the Lessor and the Investor the consolidated balance sheet of the Lessee as of December 31, 1979, and related consolidated statements of income and retained earnings for the year then ended. Such consolidated financial statements are in accordance with the books and records of the Lessee and have been prepared in accordance with generally accepted accounting principles, been applied on a consistent basis throughout the period covered thereby. The financial statements present fairly the financial condition of the Lessee at such dates and the results of its operations for such periods. The statement of changes in financial position furnished for the year 1979 fairly presents the changes in financial position for such period.

(c) No authorization or approval from any governmental or public body or authority of the United States of America, or of any of the States thereof or the District of Columbia, is necessary for the execution, delivery and performance of this Lease, the Lease Assignment or the Consent.



(d) Neither the execution and delivery of this Lease or the Consent nor the consummation of the transactions herein and therein contemplated or the fulfillment of, or compliance with, the terms and provisions hereof and thereof will conflict with, or result in a breach of, any of the terms, conditions or provisions of the certificate of incorporation (as amended) or the by-laws (as amended) of the Lessee or of any bond, debenture, note, mortgage, indenture, agreement or other instrument to which the Lessee is now a party or by which it or its property may be bound, or constitute (with the giving of notice or the passage of time or both) a default thereunder.

(e) Neither the execution and delivery by the Lessee of this Lease or the Consent nor the consummation of the transactions herein and therein contemplated nor the fulfillment of, or compliance with, the terms and provisions hereof and thereof will conflict with, or result in a breach of, any of the terms, conditions or provisions of any law, or any regulation, order, injunction or decree of any court or governmental instrumentality.

(f) No mortgage, deed of trust or other lien of any nature whatsoever which now covers or affects any property or interest therein of the Lessee, now attaches or hereafter will attach to the Units or in any manner affects or will affect adversely the right, title and interest of the Lessor or the Agent therein except that such liens may attach to the rights of the Lessee under the Lease in and to the Units. The Lessee will pay and discharge any and all liens attaching to any Unit or Units subsequent to the date of possession of the Unit or Units by the Lessee which results in a lien arising from any of the encumbrances described in the foregoing sentence.

(g) The Lessee is not entering into this Lease, or any other transaction contemplated hereby and thereby, directly or indirectly in connection with any arrangement or understanding by the Lessee in any way involving any employee benefit plan (other than a governmental plan) with respect to which it, the Lessor or the Agent is a party in interest, all within the meaning of the Employee Retirement Income Security Act of 1974 (hereinafter called ERISA).

Lessee shall furnish to Lessor, Agent and Investor an opinion of counsel for the Lessee, dated on the date of execution of this Lease to the effect set forth in subparagraphs (c, excluding the Lease Assignment), (d), (e), (f, excluding the last sentence in that subparagraph) and (g) of Lessee's representations of this Section 9 in so far as such matters relate to the Lessee, and to the further effect that:

(i) the Lessee is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and is duly qualified to do business and is in good standing in such other jurisdictions in which the business and activities of the Lessee require such qualification;

(ii) This Lease and the Consent have been duly authorized, executed and delivered by the Lessee and are legal and valid instruments binding on the Lessee.

In giving the opinion specified in this Section 9, counsel may qualify its opinion to the effect that any agreement is a legal, valid and binding instrument enforceable in accordance with its terms by a general reference to limitations as to enforceability imposed by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and as to any matter governed by the law of the jurisdiction other than the State of Idaho or the United States.

The remedies in this Lease provided in favor of the Lessor shall not be deemed exclusive, but shall be cumulative, and shall be in addition to all other remedies in its favor existing at law or in equity. The Lessee hereby waives any mandatory requirements of law, now or hereafter in effect, which might limit or modify the remedies herein provided, to the extent that such waiver is not, at the time in question, prohibited by law. The Lessee hereby waives any and all existing or future claims to any offset against the rental payments due hereunder, and agrees to make rental payments regardless of any offset or claim which may be asserted by the Lessee or on its behalf.

The failure of the Lessor to exercise the rights granted it hereunder upon the occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies.

SECTION 10. Return of the Units upon Default. If this Lease shall terminate pursuant to Section 9 hereof, the Lessee shall forthwith delivery possession of the Units to the Lessor. Each Unit so delivered shall be in the same operating order, repair and condition as when originally delivered to the Lessee, reasonable wear and tear excepted. For the purpose of delivering possession of any Unit or Units to the Lessor as above required, the Lessee shall at its own cost, expense and risk:

(a) forthwith and in the usual manner (including, but not by way of limitation, giving prompt telegraphic and written notice to the Association of American Railroads and all railroads to which any Unit or Units have been interchanged to return the Unit or Units so interchanged) place such Units upon such storage tracks of the Lessee as the Lessor reasonably may designate;

(b) permit the Lessor to store such Units on such tracks at the risk of the Lessee without charge for insurance, rent or storage until such Units have been sold, leased or otherwise disposed of by the Lessor; and

(c) transport the same to any place on the lines of railroad operated by it or any of its affiliates or to any connecting carrier for shipment, all as directed by the Lessor.

The assembling, delivery, storage and transporting of the Units as hereinbefore provided shall be at the expense and risk of the Lessee and are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Units. During any storage period, the Lessee will, at its own cost and expense, maintain and keep the Units in good order and repair and will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any such Unit, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence.

All amounts earned in respect of the Units after the date of termination of this Lease shall belong to the Lessor and, if received by the Lessee, shall be promptly turned over to the Lessor. In the event any Unit is not assembled, delivered and stored, as hereinabove provided, within 60 days after such termination, the Lessee shall, in addition, pay to the Lessor for each day thereafter an amount equal to the amount, if any, by which .041647% of the Purchase Price of such Unit for each such day exceeds the actual earnings received by the Lessor for such Unit for each such day.

Without in any way limiting the obligation of the Lessee under the foregoing provisions of this Section 10, the Lessee hereby irrevocably appoints the Lessor as the agent and attorney-

in-fact of the Lessee, with full power and authority, at any time while the Lessee is obligated to deliver possession of any Unit to the Lessor, to demand and take possession of such Unit in the name and on behalf of the Lessee from whomsoever shall be in possession of such Unit at the time.

SECTION 11. Assignment; Possession and Use. This Lease shall be assignable in whole or in part by the Lessor without the consent of the Lessee, but the Lessee shall be under no obligation to any assignee of the Lessor except upon written notice of such assignment from the Lessor. The Lessee hereby acknowledges notice of the assignment in respect of this Lease set forth in the Assignment of Lease and Agreement dated as of the date hereof, between the Lessor and the Agent (a copy of which has been delivered to the Lessee) and agrees to make payments to the Agent as provided therein. The rights of the Lessor hereunder (including, but not limited to, the rights under Section 5, 6, 8 and 9 and the rights to receive the rentals payable under this Lease) shall inure to the benefit of the Agent as assignee thereunder in the manner and to the extent therein provided. In the event that, pursuant to such assignment and the rights of the Agent thereunder and under the Security Document, the Agent shall at any time cause this Lease to be terminated, the Lessee agrees that following the payment in full by the Vendee (as defined in the Security Document) of the entire unpaid Conditional Sale Indebtedness (as defined in the Security Document) together with interest thereon, the Vendee may enforce compliance by the Lessee with its covenants and agreements under this Lease.

So long as the Lessee shall not be in default under this Lease and no event of default exists under the Security Document, the Lessee shall be entitled to the possession and use of the Units in accordance with the terms of this Lease but, without the prior written consent of the Lessor and the Agent, the Lessee shall not assign or transfer its leasehold interest under this Lease in, or sublease any of, the Units. Lessor hereby acknowledges that the St. Maries River Railroad Company, a wholly owned subsidiary of Lessee and Idaho Western Railway Co., a California corporation, (hereinafter collectively referred to as "Operators") shall operate and use the Equipment as provided in this Lease. Notwithstanding the preceding sentence Lessee shall not be released from any of its obligations under this Lease and Lessee hereby expressly acknowledges that notwithstanding the execution of this Lease by Operators, Lessee shall be responsible for Operators' actions and shall indemnify, protect and hold harmless the Lessor and Agent and the Investor from and against all losses, damages, injuries, liabilities (including, without limitation, strict or absolute liability in tort or by statute imposed) claims and demands whatsoever, regardless of

cause thereof, and expenses in connection with Operators use of the Equipment.

The Lessee, at its own expense, will promptly pay or discharge or cause to be duly discharged any and all sums claimed by any party which if unpaid, might become a lien, charge, security interest or other encumbrance (other than an encumbrance created by the Lessor or the Agent after the date hereof or resulting from claims against the Lessor or the Agent not related to the ownership of the Units), upon or with respect to any Unit or the interest of the Lessor, the Agent or the Lessee therein, and will promptly discharge any such lien, charge, security interest or other encumbrance which arises; provided, however, that the Lessee shall not be required to effect any such payment and discharge so long as it is contesting in good faith and by appropriate legal proceedings the validity of such sum, the nonpayment thereof does not, in the opinion of the Lessor, adversely affect the title, property or rights of the Lessor to any Unit hereunder or under the Security Document and the Lessee shall have posted a bond or provided additional security reasonably satisfactory to the Lessor and the Agent. The Lessee shall not, without the prior written consent of the Lessor, part with the possession or control of, or suffer or allow to pass out of its possession or control, any of the Units, except to the extent permitted by the provisions of the next succeeding paragraph hereof.

Subject to the terms of this Lease, the Lessee shall be entitled to the possession of the Units and to the use thereof by it or any affiliate upon lines of railroad owned or operated by it or any such affiliate or upon the lines of railroad over which the Lessee or any such affiliate has trackage or other operating rights or over which railroad equipment of the Lessee or any such affiliate is regularly operated pursuant to contract, and also to permit the use of the Units upon connecting and other carriers in the usual interchange of traffic and equipment, but only upon and subject to all the terms and conditions of this Lease, including the last paragraph of this Section 11, and the Security Document. The Lessee may receive and retain compensation for such use from other railroads so using any of the Units.

Nothing in this Section 11 shall be deemed to restrict the right of the Lessee to assign or transfer its leasehold interest under this Lease in the Units or possession of the Units to any corporation incorporated under the laws of any state of the United States of America or the District of Columbia (which shall have duly assumed the obligations of the Lessee hereunder) into or with which the Lessee shall have become merged or consolidated or which shall have acquired the railroad properties of the Lessee as an entirety or substantially as an entirety,

provided, that such assignee or transferee (i) will not, upon the effectiveness of such merger, consolidation or acquisition, be in default under any provision of this Lease and (ii) will, upon such effectiveness, have a net worth equal to or greater than that of the Lessee immediately prior to such effectiveness.

The Lessee agrees that during the term of this Lease, it (i) will not assign any Unit to service involving the regular operation and maintenance thereof outside the United States of America and (ii) will not at any time permit the Units then subject to this Lease to be located outside the United States of America or used in a manner which would disqualify the Units as property eligible for the investment tax credit allowed under Section 38 and related sections of the Internal Revenue Code of 1954, as amended.

SECTION 12. Renewal Option; Purchase Option. Provided that this Lease has not been earlier terminated and the Lessee is not in default hereunder, the Lessee may elect, by written notice delivered to the Lessor not less than six months prior to the end of the original term of this Lease, to extend the term of this Lease in respect of all, but not fewer than all, the Units then covered by this Lease for one additional three-year period commencing on the scheduled expiration of the original term of this Lease, at a fixed rate quarterly rental in an amount equal to 3.575512% of the Purchase Price of the Units subject to this Lease, such fixed rate quarterly rental to be paid in advance on March 1, June 1, September 1 and December 1 in each year of the applicable extended term.

Provided that this Lease has not been earlier terminated and the Lessee is not in default hereunder, the Lessee shall have the option, exercised upon written notice delivered to the Lessor not less than Six months prior to the end of the original term of this Lease or the extended term hereof to purchase all but not less than all of the Units of Equipment then leased hereunder. The purchase price for the Units at the end of the original term of this Lease shall be \$5,256 per Unit and the purchase price for the Units at the end of the extended term of this Lease shall be \$4,300 per Unit.

Payment of the option price set forth in the preceding paragraph shall be made at the place of payment specified in Section 2 of this Lease in immediately available funds against delivery of (i) a bill of sale (without warranties) transferring and assigning to the Lessee all right, title and interest of the Lessor in and to such Equipment; (ii) a satisfaction and discharge of this Lease duly executed in recordable form by the Lessor or its successors and assigns as to such Equipment; and (iii) satisfaction of all security interests in respect of such Equipment duly executed in recordable form by the respective secured parties.

Notwithstanding any election of the Lessee to purchase as provided in this Section 12, the provisions of Section 6 hereof shall continue in full force and effect until the date of purchase and the passage of ownership of the Units purchased by the Lessee upon such date except that the amount payable under Section 6 hereof shall be the greater of the amount otherwise payable under said section 6 or the purchase price payable under this Section 12.

SECTION 13. Return of Units upon Expiration of Term.  
As soon as practicable on or after the expiration of the original or any extended term of this Lease with respect to any Unit but in any event not later than 90 days after such expiration, the Lessee will, at its own cost and expense, at the request of the Lessor, deliver possession of such Units to the Lessor upon such storage tracks of the Lessee or any of its affiliates as the Lessor may designate or, in the absence of such designation, as the Lessee may select, and permit the Lessor to store such Unit on such tracks for a period not exceeding 90 days and transport the same, at any time within such 90 day period, to any connecting carrier for shipment, all as directed by the Lessor, the movement and storage of such Unit to be at the expense and risk of the Lessee. During any such storage period the Lessee will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any Unit, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence. Each Unit returned to the Lessor pursuant to this Section 13 shall (i) be in the same operating order, repair and condition as when originally delivered to the Lessee, ordinary wear and tear excepted, (ii) meet the standards then in effect under the Interchange Rules of the Association of American Railroads, if applicable, and/or the applicable rules of any governmental agency or other organization with jurisdiction and (iii) have removed therefrom by the Lessee without cost or expense to the Lessor all additions, modifications and improvements which the Lessee owns pursuant to Section 8 hereof and returned the Units to the original operating order, repair and condition as when originally delivered to the Lessee, ordinary wear and tear excepted. The assembling, delivery, storage and transporting of the Units as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises, the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Units.

All amounts earned in respect of the Units after the end of the term of this Lease shall belong to the Lessor and, if received by the Lessee, shall be promptly turned over to the Lessor. In the event any Unit is not assembled, delivered and stored, as hereinabove provided, within 60 days after the end of the term of this Lease, the Lessee shall in addition, pay to the Lessor for each day thereafter an amount equal to the amount, if any, by which .041647% of the Purchase Price of such Unit for each such day exceeds the actual earnings received by the Lessor on such Unit for each such day.

SECTION 14. Severability. Any provision of this Lease which is prohibited or unenforceable in any jurisdiction, shall be, as to such jurisdiction, ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 15. Recording Expenses. The Lessee, at its own expense, will cause this Lease, and the Lease Assignment to be filed and recorded with the Interstate Commerce Commission pursuant to 49 U.S.C. §11303. The Lessee from time to time will undertake the execution, acknowledgement, delivery, filing, recording and depositing and refiling, re-registering, re-recording and re-depositing any and all further instruments required by law or reasonably requested by the Lessor or the Agent for the purpose of proper protection, to their satisfaction, of the Lessor's and the Agent's respective rights in the Units, or for the purpose of carrying out the intention of this Lease or the assignment hereof to the Agent, or the Security Document; and the Lessee will promptly furnish to the Agent and the Lessor evidences of all such filing, registering, recording or depositing, and an opinion or opinions of counsel for the Lessee with respect thereto satisfactory to the Agent and the Lessor. This Lease and the Security document shall be filed and recorded with the Interstate Commerce Commission prior to the delivery and acceptance hereunder of any Unit. The Lessee represents that the Units are intended for use in interstate commerce within the United States.

SECTION 16. Interest on Overdue Rentals. Anything to the contrary herein contained notwithstanding, any nonpayment of rentals and other obligations when due hereunder shall result in the obligation on the part of the Lessee promptly to pay to the Investor an amount equal to the higher of 11-1/2% per annum or 2 points over the Prime Rate, as defined in Section 20 hereof, of the overdue rentals and other obligations for the period of time during which they are overdue or such lesser amount as may be legally enforceable.



SECTION 17. Notices. Any instruction or notice required or permitted to be given by either party hereto to the other shall be deemed to have been given when deposited in the United States mails, certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

if to the Lessor,

In care of Esselen Associates, Inc.,  
1351 Washington Boulevard,  
Stamford, Connecticut 06902;

if to the Lessee, at

Potlatch Corporation  
One Maritime Plaza  
San Francisco, California 94111

Attention of President

if to the Operator, at

St. Maries River Railroad Company  
P.O. Box 1016  
Lewiston, Idaho 83501

Attention of James M. Benson

if to the Agent, at

79 South Main Street  
Salt Lake City, Utah 84111,

Attention of Trust Department,  
Corporate Division;

in each case with a copy to Mandate Financial Corporation  
at

155 Jackson, Suite 2205  
San Francisco, California 94104;

and to The Provident Bank, at

One East Fourth Street  
Cincinnati, Ohio 45202

Attention Robert C. Lintz - Executive  
Vice President

and to Messrs. Keating, Muething & Klekamp at

18th Floor, Provident Tower  
One East Fourth Street  
Cincinnati, Ohio 45202

Attention: Jeffrey K. Heinichen

or addressed to any such party at such other address as such party shall hereafter furnish to the other party in writing. Copies of each such notice shall be given to the Agent as hereinabove provided.

SECTION 18. Effect and Modification of Lease. This Lease exclusively and completely states the rights of the Lessor and the Lessee with respect to the leasing of the Units and supersedes all other agreements, oral or written, with respect thereto. No variation or modification of this Lease and no waiver of any of its provisions or conditions shall be valid unless in writing and signed by duly authorized officers of the Lessor and the Lessee.

SECTION 19. Definitions. If and so long as this Lease is assigned to the Agent (or any successor thereto) for collateral purposes, wherever the term "Lessor" is used in this Lease it shall also apply and refer to the Agent and any successors thereto unless the context shall otherwise require and except that the Agent shall not be subject to any liabilities or obligations under this Lease; and the fact that the Agent is specifically named in certain provisions shall not be construed to mean that the Agent (and any successors thereto) is not entitled to the benefits of other provisions where only the Lessor is named or where only the Agent, as the case may be, is named.

SECTION 20. Federal Income Taxes. (A) In entering into the transactions contemplated hereby and by the Security Document, it is the intention of the Lessor that such transactions will continue to result in making available to the Lessor the tax benefits (the "Tax Benefits") for the purpose of determining its liability for Federal income tax purposes which result from the following assumptions:

(a) the Lease constitutes a true lease;

(b) the Lessor will continue to be entitled to deduct the interest (the "Interest Deduction") payable by the Lessor under the Security Document in computing its taxable income;

(c) the Lessor is entitled to the full 10% investment tax credit (the "Investment Credit") allowed under Section 38 and related sections of the Internal Revenue Code of 1954, as amended (the "Code"), in respect of the portion of the Purchase Price of the Units equal to the Reconstruction Cost (as defined in the Security Document);

(d) in computing its taxable net income the Lessor will continue to be entitled to depreciate that portion of the Purchase Price of the Units equal to the Reconstruction Cost in accordance with any of the methods set forth in Section 167(b)(1), (2) or (3) of the Code;

(e) in computing its taxable net income, the Lessor will continue to be entitled to depreciate the Units in accordance with the provisions of Section 167(m) of the Code for an asset depreciation period of 12 years using, with respect to that portion of the Purchase Price of the Units equal to the Reconstruction Cost, the double declining balance method of depreciation with a change, not requiring the consent of the Commissioner of Internal Revenue, to the sum of the years digits method provided in Section 167(b)(3) of the Code when most beneficial to the Lessor, and using, with respect to that portion of the Purchase Price of the Units equal to the Hulk Purchase Price (as defined in the Security Document), the 150% declining balance method of depreciation with a change, not requiring the consent of the Commissioner of Internal Revenue, to the straight line method of depreciation when most beneficial to the Lessor (the "Class Life Deduction");

(f) the depreciation referred to in subsection (e) above will continue to be available to the Lessor as to each Unit delivered to and accepted by the Prior Lessee pursuant to Section 1 of the Prior Lease on the assumption that the Lessor utilizes either the half-year convention as provided in Treasury Regulation Section 1.67(a)-11(c)(2)(iii) or the modified half-year convention as provided in Reg. Sec. 1.167(a)-11(c)(2)(ii) with respect to such Units;

(g) in depreciating the Units pursuant to subsections (e) and (f) above, the Lessor may take into account a salvage value, after the reduction allowed by Section 167(f) of the Code, of zero; and

(h) all amounts includable in gross income by the Lessor with respect to this Lease will be treated as income from sources within the United States.

(B) The Lessee agrees that neither it nor any corporation controlled by it, in control of it, or under common control with it, directly or indirectly, will at any time during the term of the Lease or any extended term thereof take any action or fail to take any action or file any returns, certificates or other documents inconsistent with the foregoing or which would increase the amount of rentals required to be taken into income by the Lessor over the amounts specified to be payable under the Lease on the dates due thereunder and that each of such corporations will file such returns, take such action and execute such documents, and keep and make available for inspection and copying by the Lessor such records (other than the Lessee's corporate income tax returns), as may be reasonable and necessary to facilitate accomplishment of the intent hereof.

The Lessee represents and warrants that the Lessee will not at any time during the term of the Lease (i) use, or fail to use, any Unit in such a way as to cause any amounts includable in the gross income of the Lessor for Federal income tax purposes to be treated as derived from or allocable to sources outside the United States, or (ii) allow any Unit to cease to be Section 38 property under the Code.

The Lessee agrees to indemnify, protect and hold harmless the Lessor and the Agent from and against all losses, damages, liabilities and claims associated with Lessee's acts or failure to act or misrepresentation under this Section 20, (except as a direct result of the occurrence of any Excluded Event set forth below) and if the Lessor shall lose, or shall not have, or shall lose the right to claim or shall suffer a disallowance of or shall be required to recapture, all or any portion of the Tax Benefits with respect to all or part of any Unit, then the Lessee shall pay to the Lessor on each of the dates provided herein for payment of the installments of rental hereunder commencing with the first such date following the date on which the liability of the Lessee hereunder shall become fixed as hereinafter provided, such sums which (after deduction of all taxes required to be paid by the Lessor on the payment of such sums under the laws of the United States or any political subdivision thereof), when taken together with the rental installments due on such dates hereunder, will, in the reasonable opinion of the Lessor, cause the Lessor's net after tax return in respect of such Unit hereunder to equal the net after tax return (computed on the same assumptions as utilized by the Lessor in originally evaluating the original transaction (Prior Lease) utilizing the assumptions in the first paragraph of this Section 20) in respect of such Unit hereunder that would have been available if the Lessor had been entitled to utilization of all of such Tax Benefits. In the event that the Lease is terminated with respect to any Unit prior to the

time the Lessee is obligated to make payments to the Lessor as set forth in the preceding sentence, then the Lessee shall pay to the Lessor, on or before 30 days after the liability of the Lessee hereunder shall become fixed as hereinafter provided, such lump sum (calculated in the same manner as set forth in the preceding sentence) as shall be necessary in the reasonable opinion of the Lessor to cause the Lessor's net after tax return in respect of such Unit hereunder to the date thereof to equal the net after tax return (computed on the same assumptions as utilized by the Lessor in originally evaluating the original transaction (Prior Lease) utilizing the assumptions in the first paragraph of this Section 20) in respect of such Unit hereunder that would have been available if the Lessor had been entitled to utilization of such Tax Benefits.

Anything in the preceding paragraph to the contrary notwithstanding, the Lessee shall not be required to make any payment to the Lessor provided for herein if the Lessor shall have lost, or shall not have, or shall have lost the right to claim, or shall have suffered a disallowance of, or shall have been required to recapture all or any portion of any Tax Benefit with respect to all or part of such Unit as a direct result of the occurrence of any of the following events (hereinafter called Excluded Events):

(i) a Casualty Occurrence with respect to such Unit, if the Lessee shall have paid to the Lessor the amounts stipulated under Section 6 hereof;

(ii) a voluntary transfer or other voluntary disposition by the Lessor of any interest in such Unit (except the transfer of disposition contemplated by the Transfer Agreement [as defined in the Security Document] or the subjection of such Unit to the Security Document) or the voluntary reduction by the Lessor of its interest in the rentals for such Unit hereunder (except pursuant to any assignment thereof to the Agent as security) or any transfer or disposition by the Lessor resulting from bankruptcy or other proceedings for the relief of debtors in which the Lessor is the debtor (whether voluntary or involuntary) of any interest in such Unit or in the rentals therefor hereunder unless, in each case, an Event of Default hereunder shall have occurred and be continuing;

(iii) the amendment of the Security Document without the prior written consent of the Lessee;

(iv) the failure of the Lessor to claim the Investment Credit, the Class Life Deduction or the Interest Deduction,

as applicable, in its Federal income tax return for the appropriate year or the failure of the Lessor to follow proper procedure in claiming any Tax Benefit;

(v) the failure of the Lessor to have sufficient liability for tax against which to credit such Investment Credit or sufficient income to benefit from the Class Life Deduction or the Interest Deduction, as applicable;

(vi) any change in corporate income tax rates under the Code or any change in tax law;

(vii) the election by the Lessor pursuant to Subchapter S of the Code to be taxed as a tax-option corporation; or

(viii) the failure of the Lessor to contest a claim in the manner hereinafter set forth in this Subsection B.

The Lessor agrees that if, in the opinion of its or the Lessee's independent tax counsel who is acceptable to the Lessor (herein referred to as Counsel), a bona fide claim to all or a portion of the Tax Benefits with respect to any Unit exists in respect of which the Lessee would otherwise be required to make payments to the Lessor pursuant hereto, the Lessor shall, upon request and at the expense of the Lessee, contest such matter in such forum as it, in its sole judgment, shall select; provided, however, that the Lessor shall not be obligated to take any such legal or other appropriate action unless it has received an opinion from such independent counsel selected by the Lessee and acceptable to the Lessor that there is a reasonable basis for contesting such matter and the Lessee shall first have indemnified the Lessor for all liabilities and expenses which may be entailed therein and the Lessee shall have advanced to the Lessor such sums as the Lessor may reasonably deem necessary to pay the costs of such contest. The Lessor may, at its option, take such action prior to making payment of any tax and interest and/or penalty attributable to the disallowance or recapture with respect to the Lessor of all or any portion of the Tax Benefits with respect to any Unit (a "Tax Payment") or may make such Tax Payment and then sue for a refund. If the Lessor takes such action prior to making such Tax Payment, such sums payable hereunder need not be paid by the Lessee while such action is pending. In such case, if the Final Determination shall be adverse to the Lessor, the sums payable hereunder shall be computed by the Lessor as of the date of such Final Determination and the Lessee shall commence payment thereof on the rental payment date under the Lease next succeeding such Final Determination and, on or before such rental payment date, the Lessee shall pay to the Lessor as an additional payment hereunder an amount equal to all interest and penalty paid by

the Lessor in respect of such Final Determination, together with interest thereon from the date such payment is made by the Lessor to the date the Lessee reimburses the Lessor thereof at the rate of interest charged by The Chase Manhattan Bank, National Association, to its prime commercial customers on short-term unsecured borrowings (the "Prime Rate") in effect on the date of such Final Determination. If the Lessor makes such Tax Payment prior to contesting the matter, the sums payable hereunder shall commence to be payable by the Lessee on the first rental payment date under the Lease after such Tax Payment is made and, on or before such rental payment date, the Lessee shall pay to the Lessor as an additional payment hereunder an amount equal to all interest and penalty paid by the Lessor included in such Tax Payment. If the Lessor sues for a refund after making such Tax Payment and the Final Determination shall be in favor of the Lessor, no future payments shall be due hereunder in respect of such matter (or an appropriate reduction shall be made if the Final Determination is partly in favor of and partly adverse to the Lessor). In addition, the Lessee and the Lessor shall adjust their accounts so that (a) the Lessor pays to the Lessee (x) an amount equal to the sums theretofore paid by the Lessee to the Lessor (or appropriate part thereof if the Final Determination is partly in favor of and partly adverse to the Lessor) on or before such next succeeding rental payment date together with interest thereon at the Prime Rate for the period such sums were paid to the Lessor to the date the Lessor pays to the Lessee an amount equal to such sums, and (y) the amount of any penalty or interest refunded to the Lessor as a result of such Final Determination and any interest paid to the Lessor by the government on such refund, promptly upon receipt thereof and (b) the Lessee pays to the Lessor an amount equal to interest at the Prime Rate on the amount of the tax refund made in respect of the Tax Payment (excluding any interest or penalty included therein) for the period from the date of the original payment of the Tax Payment by the Lessor to the date such tax refund is received by the Lessor, such Prime Rate to be calculated in either case as from time to time in effect during the respective periods.

"Final Determination" for the purpose of this Section 20 means a final decision of a Court of competent jurisdiction after all allowable appeals have been exhausted by either party to the action. Neither concession by the Lessor of any of the aforementioned Tax Benefits in the over-all settlement of a controversy with the Internal Revenue Service either at the administrative level or at the court level nor the failure to recover a refund in whole or in part with respect to the disallowance of such Tax Benefit which is the result of the setoff against the claim for refund based upon the loss of such Tax Benefits where the matters set off do not relate to such Tax

Benefits will constitute an adverse "final determination" causing the aforementioned additional payments to accrue to the Lessor. If the Lessor agrees to the disallowance of a claim for refund based upon the loss of Tax Benefits because of the assertion against it of offsets involving other issues, the Lessor shall advise the Lessee of this decision within 30 days of its making and such decision will be treated as the receipt of a refund by the Lessor for the purposes of the above provisions.

(C) In the event and to the extent that the cost of any improvement and/or addition (hereinafter called the "Alterations") to a Unit made by the Lessee, under and pursuant to the terms hereof or otherwise, is required to be included in the gross income of the Lessor for Federal income tax purposes, then the Lessee shall pay to the Lessor on each of the dates provided herein for payment of the installments of rental commencing with the first such date following the date on which the Lessee is required to furnish written notice of such inclusion to the Lessor pursuant to the last paragraph of this Subsection (C), such sums which (after deduction of all taxes required to be paid by the Lessor on the receipt thereof under the laws of the United States or any political subdivision thereof), when taken together with the rental installments due on such dates hereunder, will, in the reasonable opinion of the Lessor, cause the Lessor's net after tax return (calculated on the same basis as used by the Lessor in originally evaluating this transaction) to equal the net after tax return that would have been realized by the Lessor if the cost of such Alterations had not been includable in the Lessor's gross income.

For purposes of this Subsection (C) the cost of Alterations made by the Lessee shall be deemed to be "required to be included in the gross income of the Lessor for Federal income tax purposes" if such inclusion is required by (i) any private ruling letter issued to the Lessor by the Internal Revenue Service that has not been revoked or otherwise rendered inapplicable at the time the cost of said Alterations is incurred; (ii) any provision of the Code or the applicable regulations thereunder; or (iii) any published revenue ruling of the Internal Revenue Service which has not been held invalid by a court having ultimate appellate jurisdiction over the Federal income tax liability of the Lessor.

The Lessor agrees that it will, upon the written request and at the sole expense of the Lessee (A) seek a modification of any private ruling letter described in (i) of the preceding paragraph to eliminate the requirement that the cost of Alterations be included in the Lessor's gross income and (B) contest the inclusion of the cost of Alterations in its gross income if such



inclusion is required pursuant to (ii) and (iii) of the preceding paragraph in such forum as it, in its sole judgment shall select; provided, however, that the Lessor shall not be required to contest such inclusion unless it has received an opinion from independent counsel selected by the Lessee and acceptable to the Lessor that there is a reasonable basis for contesting such inclusion and the Lessee has advanced to the Lessor such sums as the Lessor may reasonably deem necessary to pay the costs of such contest.

The Lessee agrees that, within 30 days after the closing of any calendar year (or in the event the Lessor gives the Lessee written notice that the Lessor's taxable year closes on a date specified therein other than December 31, within 30 days after said date) in which the Lessee has made Alterations which are required to be included in the gross income of the Lessor for Federal income tax purposes, the Lessee will give written notice thereof to the Lessor describing such Alterations in reasonable detail and specifying the cost thereof with respect to each Unit.

(D) For purposes of Subsections A, B and C of this Section 20 the term "Lessor" shall include any affiliated group, within the meaning of Section 1504 of the Code, of which the Lessor is a member if consolidated returns are filed for such affiliated group for Federal income tax purposes.

(E) The obligations and liabilities of the Lessee and the Lessor arising under this Section 20 shall continue in full force and effect, notwithstanding the expiration of this Lease, until all such obligations have been met and such liabilities have been paid in full. All of the covenants, indemnities, representations, warranties and agreements of the Lessee and the Lessor set forth in this Section 20 shall survive the expiration or earlier termination of this Lease.

(F) All amounts due the Lessor under this Section 20 shall be calculated in good faith by the Lessor and the Lessor will provide the Lessee with a certificate of an officer of the Lessor setting forth in reasonable detail the figures and method used in making such calculation and the Lessee will have 30 days to demonstrate in writing any error in the Lessor's calculation. The Lessor shall determine within 30 days after receiving the Lessee's written statement of any error in the Lessor's calculation, whether any error has in fact been made by the Lessor in its calculation; provided, however, that the Lessee hereby agrees that it will not have the right to inspect the tax returns or related documents of the Lessor or any affiliate of the Lessor in order to confirm the calculations of the Lessor pursuant to this Section 20. If the Lessor and the Lessee cannot agree pursuant to this Subsection 20(F) on the amounts due the Lessor under this

Section 20, the disagreement shall be submitted to the firm of independent public accountants then examining the financial statements of the Lessor for a final and binding determination. Such determination shall be in lieu of any judicial or other procedures for the settlement of such disagreement, and the Lessor and the Lessee hereby consent and agree not to assert any judicial or other procedures in connection therewith. The expenses or having such accounting firm make such determination shall be borne solely by the Lessee.

Unless otherwise directed by the Lessor in accordance with the next following sentence, all payments provided to be made to the Lessor pursuant to this Section 20 shall be made by check of the Lessee payable to the order of the Lessor and mailed to the Lessor, certified mail, postage prepaid, at its address set forth in Section 17. In the event the Lessor shall experience what it deems to be unreasonably delays in collection due to such method of payment, the Lessor may at any time thereafter direct the Lessee in writing to make all such future payments by wire transfer of immediately available funds to such bank in the continental United States as the Lessor shall designate for the account of the Lessor, and the Lessee agrees to make all such future payments in such manner.

SECTION 21. Execution. This Lease may be executed in several counterparts together constituting but one and the same instrument, but the counterpart delivered to the Lessor shall be deemed to be the original counterpart. It shall not be necessary that any counterpart be signed by both parties so long as each party shall sign at least one counterpart. This Lease shall be valid, binding and effective at such time as the Agent shall have received (or as to which the Agent shall have received attested telegraphic communication confirming execution of) counterparts executed by the Lessor and the Lessee. Although this Lease is dated as of the date first set forth above for convenience, the actual date or dates of execution hereof by the parties hereto is or are, respectively, the date or dates stated in the acknowledgements hereto annexed.

SECTION 22. Lessor's Rights To Perform. If the Lessee fails to perform or comply with any of its agreements contained herein, the Lessor may upon notice to the Lessee itself perform or comply with such agreement, and the amount of the reasonable cost and expenses of the Lessor incurred in connection with such performance or compliance, together with interest on such amount at the rate per annum specified in Section 16 hereof, shall be provided by the Lessee upon demand except as otherwise provided

in this Lease. No such performance or compliance by the Lessor shall be deemed a waiver of rights and remedies of the Lessor or any assignee of the Lessor against the Lessee hereunder.

SECTION 23. Law Governing. The terms of this Lease and all rights and obligations hereunder shall be governed by the laws of the State of Idaho; provided, however, that the parties shall be entitled to all rights conferred by 49 U.S.C. Section 11303 and such additional rights arising out of the filing or deposit hereof, if any, and of any assignment hereof as shall be conferred by the laws of the several jurisdictions in which this Lease or any assignment hereof shall be filed or deposited.

SECTION 24. Appraisal, Arbitration. In the event a determination of Fair Market Value is required under this Lease, Fair Market Value shall be determined on the basis of, and shall be equal in amount to, the value which would obtain in an arms-length transaction between an informed and willing purchaser (other than (i) a lessee currently in possession or (ii) a used equipment dealer) and an informed and willing seller under no compulsion to sell and, in such determination, costs of removal from the location of current use shall not be a deduction from such value.

If the Lessor and the Lessee are unable to agree upon a determination of the Fair Market Value of the Units, such value shall be determined in accordance with the foregoing definitions, respectively, by the following procedure: If either party to such determination shall have given written notice to the other requesting determination of such value by this appraisal procedure, the parties shall consult for the purpose of appointing a qualified independent appraiser by mutual agreement. If no such appraiser is so appointed within 10 business days after such notice is given, each party shall appoint an independent appraiser within 15 business days after such notice is given, and the two appraisers so appointed shall within 20 business days after such notice is given appoint a third independent appraiser. If no such third appraiser is appointed within 20 business days after such notice is given, either party may apply, to make such appointment, to the American Arbitration Association in New York City, and both parties shall be bound by any appointment so made. Any appraiser or appraisers appointed pursuant to the foregoing procedure shall be instructed to determine such value of the Units within 30 days after his or their appointment. If the parties shall have appointed a single appraiser or if either party shall have failed to appoint an appraiser, the determination of such value of the single appraiser appointed shall be final. If three appraisers shall be appointed, the determination of the appraiser which differs most from the other two appraisers shall be excluded, the remaining two determinations shall be averaged and such latter average shall be final

and binding upon the parties hereto as such value. The appraisal proceedings shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association as in effect on the date hereof, except as modified hereby. The provision for this appraisal procedure shall be the exclusive means of determining Fair Market Value and shall be in lieu of any judicial or other procedure for the determination thereof, and each party hereto hereby consents and agrees not to assert any judicial or other procedures. The expenses of the appraisal procedures shall be borne by the Lessee.

IN WITNESS WHEREOF, the parties hereto, each pursuant to due corporate authority, have caused this instrument to be executed in their respective corporate names by duly authorized officers, and their respective corporate seals to be hereunto affixed and duly attested, all as of the date first above written.

[Corporate Seal]

ATTEST:

*PA Crapiano*

E. A. LEASING CORPORATION

BY:

*Leonard V. Chard*  
Vice President

[Corporate Seal]

ATTEST:

POTLATCH CORPORATION

BY:

President

[Corporate Seal]

ATTEST:

ST. MARIES RIVER RAILROAD COMPANY

BY:

President

STATE OF CONNECTICUT )

: SS.

COUNTY OF FAIRFIELD )

On this 26 day of July, 1980, before me personally appeared *Leonard V. Chard*, to me personally known, who, being by me duly sworn, says that he is a Vice President of E. A. LEASING CORPORATION, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he

acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

[Notarial Seal]

NOTARY PUBLIC

*Louise P. Langer*  
Notary Public

My Commission expires: My Commission Expires March 31, 1982

STATE OF IDAHO )  
: SS.  
COUNTY OF \_\_\_\_\_ )

On this \_\_\_\_\_ day of \_\_\_\_\_, 1980, before me personally appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, says that he is a President of POTLATCH CORPORATION, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

[Notarial Seal]

\_\_\_\_\_  
Notary Public

My Commission expires:

STATE OF IDAHO )  
: SS.  
COUNTY OF \_\_\_\_\_ )

On this \_\_\_\_\_ day of \_\_\_\_\_, 1980, before me personally appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, says that he is a President of ST. MARIES RIVER RAILROAD COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

\_\_\_\_\_  
Notary Public

[Notarial Seal]

My Commission expires:

SCHEDULE A

<u>Quantity</u>	<u>AAR Mechanical Designation</u>	<u>Description</u>	<u>Original Les- see's Road Numbers of Units Deli- vered And Accepted on or Prior to June 30, 1976 (Inclusive)</u>	<u>Original Les- see's Road Numbers of Units Deli- vered and Accepted After June 30, 1976 (Inclusive)</u>	<u>Lessee's Road Numbers (Inclusive)</u>
196	F191	High-stake log flat cars	58505-58616, (excluding 58568 which suffered a casualty prior to the date hereof)	58495-58499 58617-58699 (excluding 58656, 58497 and 58663 which suffered a casualty prior to the date hereof)	

SCHEDULE B\*

Casualty Value Percentages Schedule

Table 1

<u>Rental Payment Date</u>	<u>Percentage of Purchase Price for each Unit delivered and accepted under the Prior Lease on or prior to June 30, 1976</u>	<u>Percentage of Purchase Price for each Unit delivered and accepted under the Prior Lease after June 30, 1976</u>
June 1, 1980	73.99%	74.35%
September 1, 1980	72.12	72.49
December 1, 1980	70.16	70.59
March 1, 1981	68.13	68.62
June 1, 1981	66.02	66.60
September 1, 1981	63.85	64.91
December 1, 1981	61.60	62.81
March 1, 1982	59.68	60.66
June 1, 1982	57.34	58.47
September 1, 1982	54.95	56.23
December 1, 1982	52.52	53.99
March 1, 1983	50.06	51.72
June 1, 1983	47.60	49.42
September 1, 1983	45.15	47.47
December 1, 1983	42.69	45.16
March 1, 1984	40.61	42.84
June 1, 1984	38.22	40.52
September 1, 1984	35.88	38.18
December 1, 1984	33.60	35.89
March 1, 1985	31.36	33.62
June 1, 1985	29.28	31.30
September 1, 1985	27.33	28.81
December 1, 1985	25.51	26.21
March 1, 1986	23.40	23.48
June 1, 1986	20.00	20.00

Table 2

The percentages set forth in Table 1 of this Schedule B have been computed without regard to recapture of the Investment Credit. Consequently, the Casualty Value of any Unit suffering a Casualty Occurrence on or before the third, fifth or seventh anniversary of the date of delivery and acceptance of such Unit under the Prior Lease shall be increased by the applicable percentage of the Reconstruction Cost (said Reconstruction Cost being \$6,630.00) set forth below:

<u>Anniversary of Delivery and Acceptance Under the Prior Lease</u>	<u>Percentage of Reconstruction Cost</u>
Third	19.23%
Fifth	12.82
Seventh	6.41

\*Computed on basis that advance rental will also be payable in addition to Casualty Value.

EXHIBIT 'A

TO

LEASE OF RAILROAD EQUIPMENT

CERTIFICATE OF COMMENCEMENT OF LEASE

Reference is made to (i) the Lease of Railroad Equipment dated as of June 2, 1980 (the "Lease"), between E.A. LEASING CORPORATION as Lessor ("Lessor") and POTLATCH CORPORATION as Lessee ("Potlatch"), (ii) Termination Agreement dated as of June 2, 1980 among RICHARD B. OGILVIE, as Trustee for the property of the CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY as Debtor ("Trustee"), E.A. LEASING CORPORATION as Lessor and POTLATCH CORPORATION as Lessee and (iii) Assignment of Lease and Agreement dated as of June 2, 1980 between E.A. LEASING CORPORATION as Lessor and FIRST SECURITY BANK OF UTAH, NATIONAL ASSOCIATION, as Agent, all relating to up to one hundred ninety four (194) log flat cars ("Units").

The Undersigned on behalf of Potlatch hereby certifies that:

(1) He is the authorized officer of Potlatch duly authorized to receive delivery of, inspect and accept the Units on behalf of Potlatch;

(2) The Units whose Road Numbers are listed on attached Schedule 1 (i) have been delivered by the Trustee, (ii) have been inspected by a representative of Potlatch, (iii) conform to all other specifications, requirements and conditions of the Lease, and (iv) are marked in accordance with the requirements of Section 4 of the Lease and Article 8 of the Security Document (as defined in the Lease).

(3) Potlatch acknowledges that some of the Units do not adhere to the specifications, requirements and standards of the Association of American Railroads, the Interstate Commerce Commission and the Department of Transportation and Potlatch agrees to make, within a reasonable period of time, the necessary maintenance and repairs to such Units in order that the Units will conform to those specifications, requirements and standards. Potlatch also agrees to make the necessary maintenance and repairs to any Unit or Units not meeting the specifications, requirements and standards prior to use of such Unit or Units in interchange.

(4) Potlatch has accepted the Units whose Road Numbers are listed on Schedule 1 hereto pursuant to the Lease.

Dated: \_\_\_\_\_

POTLATCH CORPORATION

BY: \_\_\_\_\_  
Authorized Officer



# SCHEDULE 1

MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.
58495	<u>300</u>	58535	<u>334</u>	58570	<u>368</u>	58604	<u>402</u>	58638	<u>436</u>	58674	<u>470</u>
58496	<u>301</u>	58536	<u>335</u>	58571	<u>369</u>	58605	<u>403</u>	58639	<u>437</u>	58675	<u>471</u>
58498	<u>302</u>	58537	<u>336</u>	58572	<u>370</u>	58606	<u>404</u>	58640	<u>438</u>	58676	<u>472</u>
58499	<u>303</u>	58538	<u>337</u>	58573	<u>371</u>	58607	<u>405</u>	58641	<u>439</u>	58677	<u>473</u>
58505	<u>304</u>	58539	<u>338</u>	58574	<u>372</u>	58608	<u>406</u>	58642	<u>440</u>	58678	<u>474</u>
58506	<u>305</u>	58540	<u>339</u>	58575	<u>373</u>	58609	<u>407</u>	58643	<u>441</u>	58679	<u>475</u>
58507	<u>306</u>	58541	<u>340</u>	58576	<u>374</u>	58610	<u>408</u>	58644	<u>442</u>	58680	<u>476</u>
58508	<u>307</u>	58542	<u>341</u>	58577	<u>375</u>	58611	<u>409</u>	58645	<u>443</u>	58681	<u>477</u>
58509	<u>308</u>	58543	<u>342</u>	58578	<u>376</u>	58612	<u>410</u>	58646	<u>444</u>	58682	<u>478</u>
58510	<u>309</u>	58544	<u>343</u>	58579	<u>377</u>	58613	<u>411</u>	58647	<u>445</u>	58683	<u>479</u>
58511	<u>310</u>	58545	<u>344</u>	58580	<u>378</u>	58614	<u>412</u>	58648	<u>446</u>	58684	<u>480</u>
58512	<u>311</u>	58546	<u>345</u>	58581	<u>379</u>	58615	<u>413</u>	58649	<u>447</u>	58685	<u>481</u>
58513	<u>312</u>	58547	<u>346</u>	58582	<u>380</u>	58616	<u>414</u>	58650	<u>448</u>	58686	<u>482</u>
58514	<u>313</u>	58548	<u>347</u>	58583	<u>381</u>	58617	<u>415</u>	58651	<u>449</u>	58687	<u>483</u>
58515	<u>314</u>	58549	<u>348</u>	58584	<u>382</u>	58618	<u>416</u>	58652	<u>450</u>	58688	<u>484</u>
58516	<u>315</u>	58550	<u>349</u>	58585	<u>383</u>	58619	<u>417</u>	58653	<u>451</u>	58689	<u>485</u>
58517	<u>316</u>	58551	<u>350</u>	58586	<u>384</u>	58620	<u>418</u>	58654	<u>452</u>	58690	<u>486</u>
58518	<u>317</u>	58552	<u>351</u>	58587	<u>385</u>	58621	<u>419</u>	58655	<u>453</u>	58691	<u>487</u>
58519	<u>318</u>	58553	<u>352</u>	58588	<u>386</u>	58622	<u>420</u>	58657	<u>454</u>	58692	<u>488</u>
58520	<u>319</u>	58554	<u>353</u>	58589	<u>387</u>	58623	<u>421</u>	58658	<u>455</u>	58693	<u>489</u>
58521	<u>320</u>	58555	<u>354</u>	58590	<u>388</u>	58624	<u>422</u>	58659	<u>456</u>	58694	<u>490</u>
58522	<u>321</u>	58556	<u>355</u>	58591	<u>389</u>	58625	<u>423</u>	58660	<u>457</u>	58695	<u>491</u>
58523	<u>322</u>	58557	<u>356</u>	58592	<u>390</u>	58626	<u>424</u>	58661	<u>458</u>	58696	<u>492</u>
58524	<u>323</u>	58558	<u>357</u>	58593	<u>391</u>	58627	<u>425</u>	58662	<u>459</u>	58697	<u>493</u>
58525	<u>324</u>	58559	<u>358</u>	58594	<u>392</u>	58628	<u>426</u>	58664	<u>460</u>	58698	<u>494</u>
58526	<u>325</u>	58560	<u>359</u>	58595	<u>393</u>	58629	<u>427</u>	58665	<u>461</u>	58699	<u>495</u>
58527	<u>326</u>	58561	<u>360</u>	58596	<u>394</u>	58630	<u>428</u>	58666	<u>462</u>		
58528	<u>327</u>	58562	<u>361</u>	58597	<u>395</u>	58631	<u>429</u>	58667	<u>463</u>		
58529	<u>328</u>	58563	<u>362</u>	58598	<u>396</u>	58632	<u>430</u>	58668	<u>464</u>		
58530	<u>329</u>	58564	<u>363</u>	58599	<u>397</u>	58633	<u>431</u>	58669	<u>465</u>		
58531	<u>330</u>	58565	<u>364</u>	58600	<u>398</u>	58634	<u>432</u>	58670	<u>466</u>		
58532	<u>331</u>	58566	<u>365</u>	58601	<u>399</u>	58635	<u>433</u>	58671	<u>467</u>		
58533	<u>332</u>	58567	<u>366</u>	58602	<u>400</u>	58636	<u>434</u>	58672	<u>468</u>		
58534	<u>333</u>	58569	<u>367</u>	58603	<u>401</u>	58637	<u>435</u>	58673	<u>469</u>		

(196

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LEASE OF RAILROAD EQUIPMENT

Dated as of June 2, 1980

Between

POTLATCH CORPORATION

and

ST. MARIES RIVER RAILROAD COMPANY

and

E. A. LEASING CORPORATION

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## LEASE OF RAILROAD EQUIPMENT

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### TABLE OF CONTENTS\*

	<u>Page</u>
PARTIES . . . . .	1
PREAMBLES . . . . .	1
SECTION 1.	
Delivery and Acceptance of Units . . . . .	1
SECTION 2.	
Rental . . . . .	2
SECTION 3.	
Term of Lease. . . . .	4
SECTION 4.	
Identification Marks . . . . .	4
SECTION 5.	
Taxes. . . . .	5
SECTIN 6.	
Maintenance; Casualty Occurrences; Insurance . . . . .	7
SECTION 7.	
Annual Reports . . . . .	11

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\* This Table of Contents has been included in this document for convenience only and does not form a part of, or affect any construction or interpretation of this document.

Page

## SECTION 8.

Disclaimer of Warranties; Compliance with Laws and Rules; Indemnification . . . . .	12
--	----

## SECTION 9.

Default; Representations . . . . .	14
------------------------------------	----

## SECTION 10.

Return of Units upon Default . . . . .	19
--	----

## SECTION 11.

Assignment; Possession and Use . . . . .	21
--	----

## SECTION 12.

Renewal Option; Purchase Option. . . . .	23
--	----

## SECTION 13.

Return of Units upon Expiration of Term. . . . .	24
--	----

## SECTION 14.

Severability . . . . .	25
------------------------	----

## SECTION 15.

Recording; Expenses. . . . .	25
------------------------------	----

## SECTION 16.

Interest on Overdue Rentals. . . . .	25
--------------------------------------	----

## SECTION 17.

Notices. . . . .	26
------------------	----

## SECTION 18.

Effect and Modification of Lease . . . . .	27
--	----

Page

## SECTION 19.

Definitions. . . . . 27

## SECTION 20.

Federal Income Taxes . . . . . 27

## SECTION 21.

Execution. . . . . 35

## SECTION 22.

Lessor's Rights To Perform . . . . . 35

## SECTION 23.

Law Governing. . . . . 36

## SECTION 24.

Appraisal, Arbitration . . . . . 36

SIGNATURES. . . . . 37

TESTIMONIUM . . . . . 37

SCHEDULE A--Specifications of the Equipment . . . . . 39

SCHEDULE B--Casualty Value Percentages Schedule . . . . . 40

EXHIBIT A--Certificate of Commencement of Lease . . . . . 41

LEASE OF RAILROAD EQUIPMENT, dated as of June 2, 1980, between POTLATCH CORPORATION, a Delaware corporation (hereinafter called the Lessee), St. Maries River Railroad Company, an Idaho corporation and E. A. LEASING CORPORATION, a Connecticut corporation (hereinafter called the Lessor).

Under the Participation Agreement dated as of May 1, 1976 among Chicago, Milwaukee, St. Paul and Pacific Railroad Company ("Chicago Milwaukee"), First Security Bank of Utah, National Association, as Agent ("Agent"), E. A. Leasing Corporation ("Lessor") and The Provident Bank ("Investor"), the Lessor acquired 200 units of used railroad equipment which were reconstructed in accordance with the specifications of Lessor (the reconstructed hulks being hereinafter called the "Equipment" or a "Unit" or "Units"); the Agent acquired a security interest in the Units pursuant to a Transfer Agreement dated as of May 1, 1976; the Investor financed 79.17995% of the Purchase Price (as defined in the Reconstruction and Conditional Sale Agreement dated as of May 1, 1976 among the Agent, M.C.L. Equipment Company and Lessor) and the Lessor financed 20.82005% of the Purchase Price of the Equipment; and the Lessor and Chicago Milwaukee entered into a Lease of Railroad Equipment dated as of May 1, 1976 ("Prior Lease") which Prior Lease was assigned to the Agent pursuant to an Assignment of Lease and Agreement dated as of May 1, 1976.

The Prior Lease has been or simultaneously with the execution of this Lease will be terminated pursuant to a Lease Termination Agreement dated as of June 2, 1980 ("Termination Agreement") between Lessor and Chicago Milwaukee, with the acknowledgement and agreement by Potlatch Corporation and consented to by the Investor and the Agent pursuant to their respective Consent and Agreement dated as of June 2, 1980.

The Lessor now desires to re-lease to Lessee such number of units of Equipment as are delivered, accepted and settled for at the rentals and for the term and upon the conditions hereinafter provided and Lessor will assign certain of its rights under the new Lease of Railroad Equipment as security to the Agent pursuant to an Assignment of Lease dated as of the date hereof ("Lease Assignment") with the Lessee's Consent and Agreement dated as of the date hereof ("Consent").

NOW, THEREFORE, in consideration of the premises and of the rentals to be paid and the covenants hereinafter mentioned to be kept and performed by the Lessee, the Lessor hereby leases the Units to the Lessee upon the following terms and conditions:

Section 1. Delivery and Acceptance of Units. The Lessor will cause each Unit to be tendered to the Lessee at the point or points within the United States of America where such Unit is, and Lessee agrees to accept such tender of the Units on an "as is, where is" basis. This Lease shall become effective on the

date Lessor delivers to Lessee, and Lessee shall acknowledge and accept, a certificate of commencement of lease ("Certificate of Commencement of Lease") in the form attached hereto as Exhibit A, whereupon such Units shall be deemed to have been delivered to and accepted by the Lessee and shall be subject thereafter to all the terms and conditions of this Lease. Upon such tender, the Lessee will have already inspected the Units and Lessee hereby agrees to accept the Units as they are and represents that the Units are in good order, normal wear and tear excepted.

Section 2. Rental. The Lessee agrees to pay to the Lessor as rental for each Unit subject to this Lease 24 quarterly payments. The 24 quarterly payments are payable in advance on March 1, June 1, September 1 and December 1 in each year, commencing September 1, 1980 to and including June 1, 1986. The 24 quarterly rental payments with respect to each Unit delivered and accepted hereunder and under the Reconstruction and Conditional Sale Agreement, dated as of May 1, 1976 among First Security Bank of Utah, National Association, not in its individual capacity but solely as Agent, M.L.C. Equipment Company and Lessor, (hereinafter called the "Security Document," which Security Document, to the extent necessary to the performance of this Lease is incorporated herein for each Unit subject to this Lease, and Lessee hereby acknowledges the existence of the Security Document and agrees to be bound by its terms) shall each be in an amount equal to 3.748222% of the purchase price (hereinafter the "Purchase Price" which is defined to be the sum of \$7,330) of the Units subject to this Lease. The rentals and Casualty Value percentages shall be sufficient to satisfy the obligations of the Lessor under the Security Document, notwithstanding any limitation of liability contained therein.

If any of the rental payment dates referred to above is not a business day the rental payment otherwise payable on such date shall be payable on the next succeeding business day. The term "business day" as used herein means a calendar day, excluding Saturdays, Sundays and any other day on which banking institutions in New York, New York, or Salt Lake City, Utah, are authorized or obligated to remain closed.

The Lessor irrevocably (so long as any Conditional Sale Indebtedness, as defined in the Security Document, interest thereon or other obligations provided for in the Security Document shall remain outstanding or unpaid) instructs the Lessee to make, and the Lessee agrees to make, all the payments provided for in this Lease (except as otherwise provided in Section 20 hereof) for the account of the Lessor or its assigns, in care of the Agent at 79 South Main Street, Salt Lake City, Utah 84111, Attention: Trust Department, Corporate Division, not later than 11:00 a.m., Salt Lake City, Utah, time, on the date upon which such payments are due and payable. It is understood and agreed that the Agent shall apply such payments first to satisfy the obligations of the

Lessor under the Security Document (subject to the limitations contained in the last paragraph of Article 3 of the Security Document) and the obligations of the Lessee to the Agent and the Investor pursuant to the third paragraph of Section 8 hereof and, second, so long as no event of default or event which with the lapse of time and/or demand provided for in the Security Document could constitute an event of default under the Security Document shall have occurred and be continuing, shall pay any balance not later than the first business day following such receipt from the Lessee by wire transferring immediately available funds to such bank in the continental United States for the account of the Lessor as the Lessor from time to time shall have directed the Agent in writing, and if no such direction shall have been given, by check of the Agent payable to the order of the Lessor and mailed to the Lessor in the manner provided in Section 17 hereof (with written confirmation of the disbursement of any such balance to be given by the Agent to the Lessor by mail in the manner provided in Section 17 hereof). The Lessee agrees to make such payment provided for herein as contemplated by this paragraph in immediately available funds in the city where such payment is to be made.

This Lease is a net lease and the Lessee shall not be entitled to any abatement of rent, reduction thereof or setoff against rent, including, but not limited to, abatements, reductions or setoffs due or alleged to be due to, or by reason of, any past, present or future claims of or counterclaims of the Lessee against the Lessor under this Lease or under the Security Document, or for or against the prior user or lessee of the Equipment under the Prior Lease or the Builder (as defined in the Security Document) or the Agent or otherwise; nor, except as otherwise expressly provided herein, shall this Lease terminate, or the respective obligations of the Lessor or the Lessee be otherwise affected, by reason of any defect in or failure of title of the Lessor to any of the Units or damage to or loss of possession or loss of use or destruction of all or any of the Units from whatsoever cause, any liens, encumbrances or rights of others with respect to any of the Units, the prohibition of or other restriction against Lessee's use of all or any of the Units, the taking or requisitioning of any of the Units by condemnation or otherwise, the interference with such use by any person or entity, the invalidity or unenforceability or lack of due authorization of this Lease, any insolvency, bankruptcy, reorganization or similar proceeding against the Lessee, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events in the manner and at the times herein provided unless the obligation to pay the same shall be terminated pursuant to the express provisions of this Lease. To the extent permitted by applicable law, the Lessee hereby waives any and all rights which it may now



have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the lease of any of the Units except in accordance with the express terms hereof. Each rental or other payment made by the Lessee hereunder shall be final and the Lessee shall not seek to recover all or any part of such payment from the Lessor for any reason whatsoever.

Section 3. Term of Lease. The term of this Lease shall commence upon the the date of delivery of the Certificate of Commencement of Lease, subject to the provisions of Sections 6, 9 and 12 hereof, and shall terminate on the last day of the second month following the date on which the final advance payment of rent in respect thereof is due hereunder.

Notwithstanding anything to the contrary contained herein, all rights and obligations of the Lessee under this Lease and in and to the Units are subject to the rights of the Agent under the Security Document. If an event of default should occur under the Security Document, the Agent may terminate this Lease (or rescind its termination), all as provided therein.

Section 4. Identification Marks. The Lessee, so long as this Lease shall remain in effect, will cause each Unit to be kept numbered with the road number set forth in Schedule A hereto, which Schedule A shall recite the current road numbers then associated with each Unit, and will keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of such Unit, the legend required by Article 8 of the Security Document or other appropriate markings designated by the Agent, with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect Lessor's and the Agent's title to and property in such Unit and the rights of the Lessor under this Lease and of the Agent under the Security Document. The Lessee will not place any such Unit in operation or exercise any control or dominion over the same until such legend shall have been so marked on both sides thereof and will replace promptly any such legend which may be removed, obliterated, defaced or destroyed. The Lessee shall be obligated to change the road numbers of the Units and to substitute therefor the Lessee's road numbers and file, record and deposit a statement of such new numbers to be substituted therefor in all public offices where this Lease or the Security Document shall have been filed, recorded and deposited, including but not limited to the Interstate Commerce Commission and the Association of American Railroads. The Lessee shall file a statement of the new numbers to be substituted therefor with the Agent and the Lessor and the Lessee shall have furnished the Agent and the Lessor an opinion of counsel to that effect and to the further effect that such filing, recordation and deposit will protect the Agent's and the Lessor's interests in such Units and that no filing, recording, depositing or giving of notice with or to any other Federal, state or local government

or agency thereof is necessary to protect the interests of the Agent and the Lessor in such Units.

Except as above provided, the Lessee, so long as this Lease shall remain in effect, will not allow the name of any person, association or corporation to be placed on the Units as a designation that might be interpreted as a claim of ownership; provided, however, that the Lessee may cause the Units to be lettered with the names or initials or other insignia customarily used by the Lessee or its affiliates on railroad equipment used by them of the same or a similar type for convenience of identification of their rights to use the Units as permitted under this Lease and Lessee may cause the Units to be repainted provided that after repainting said Units conform to this Section 4.

Section 5. Taxes. All payments to be made by the Lessee hereunder will be free of expense to the Lessor for collection or other charges and will be free of expense to the Lessor with respect to the amount of any local, state, Federal or foreign taxes (other than any United States Federal income tax and, to the extent that the Lessor received credit therefor against its United States Federal income tax liability, any foreign income tax payable by the Lessor in consequence of the receipt of payments provided herein and other than the aggregate of all state and city income taxes and franchise taxes measured by net income based on such receipts or gross receipts taxes other than gross receipts taxes in the nature of sales or use taxes, up to the amount of any such taxes which would be payable to the state and city in which the Lessor has its principal place of business without apportionment to any other state or city, except any such tax which is in substitution for or relieves the Lessee from the payment of taxes which it would otherwise be obligated to pay or reimburse as herein provided), assessments, documentary stamp taxes, or license fees and any charges, fines, penalties or interest in connection therewith (hereinafter called impositions) now or hereafter levied or imposed upon or in connection with or measured by this Lease or any sale, rental, use, payment, shipment, delivery or transfer of title under the terms hereof or the Security Document, all of which impositions the Lessee assumes and agrees to pay on demand in addition to the payments to be made by it provided for herein. Lessee agrees to pay or cause to be paid, hold harmless and indemnify the Lessor, the Agent and the Investor and their successors and assigns, against all local, state, Federal or foreign taxes, fees, withholdings, levies, imposts, duties, assessments, charges, license and registration fees and other governmental charges of any nature whatsoever, incurred or associated with the transfer of this Lease and the Equipment herewith to the Lessee hereunder, including, without limitation, sales and use taxes of the State of Idaho. The Lessee will also pay promptly all impositions which may be imposed upon any Unit or for the use or operation thereof or upon the earnings arising therefrom or upon the Lessor

solely by reason of its ownership thereof (other than any United States Federal income tax and, to the extent that the Lessor received credit therefor against its United States Federal Income Tax liability, any foreign income tax payable by the Lessor in consequence of the receipt of payments herein and other than the aggregate of all state and city income taxes and franchise taxes measured by net income based on such receipts or gross receipts taxes other than gross receipts taxes in the nature of sales or use taxes, up to the amount of any such taxes which would be payable to the state and city in which the Lessor has its principal place of business without apportionment to any other state or city, except any such tax which is in substitution for or relieves the Lessee from the payment of taxes which it would otherwise be obligated to pay or reimburse as herein provided) and will keep at all times all and every part of such Unit free and clear of all impositions which might in any way affect the title of the Lessor or result in a lien upon any such Unit; provided, however, that the Lessee shall be under no obligation to pay any impositions so long as it is contesting in good faith and by appropriate legal proceedings such impositions and the nonpayment thereof does not, in the opinion of the Lessor, adversely affect the title, property or rights of the Lessor hereunder or under the Security Document. If any impositions shall have been charged or levied against the Lessor directly and paid by the Lessor, the Lessee shall reimburse the Lessor promptly on presentation of an invoice therefor; provided, however, that the Lessee shall not be obligated to reimburse the Lessor for any impositions so paid unless the Lessor shall have been legally liable with respect thereto (as evidenced by an opinion of counsel for the Lessor), or unless the Lessee shall have approved the payment thereof or unless such payment shall have in the opinion of counsel for the Lessor been necessary in order to satisfy a lien threatened or placed against any Unit.

In the event that the Lessor shall become obligated to make any payment to the Agent pursuant to Article 5 of the Security Document not covered by the foregoing paragraph of this Section 5, the Lessee shall pay such additional amounts (which shall also be deemed impositions hereunder) to the Lessor as will enable the Lessor to fulfill completely its obligations pursuant to said Article 5.

In the event any reports with regard to impositions are required to be made on the basis of individual Units or otherwise, the Lessee will, where permitted to do so under applicable rules or regulations, make and timely file such reports in such manner as to show the interest of the Lessor and the Agent in the Units as shall be satisfactory to the Lessor and the Agent or, where not so permitted, will notify the Lessor and the Agent of such requirement and will prepare and deliver such reports to the Lessor and the Agent within a reasonable time prior to the time such reports are to be filed in such manner as shall be satisfactory to the Lessor and the Agent.

In the event that, during the continuance of this Lease, the Lessee becomes liable for the payment or reimbursement of any impositions, pursuant to this Section 5, such liability shall continue, notwithstanding the expiration of this Lease, until all such impositions are paid or reimbursed by the Lessee.

SECTION 6. Maintenance; Casualty Occurrences; Insurance. The Lessee at its own expense will maintain and service each Unit so that each Unit will remain (a) in as good operating condition as when delivered (ordinary wear and tear excepted), (b) in compliance with any and all applicable laws and regulations including, but not limited to, any applicable rules of the American Association of Railroads and regulations of the Interstate Commerce Commission and (c) suitable for immediate purchase or lease and use by a Class I line-haul railroad (not then or prospectively a debtor in any insolvency, bankruptcy or reorganization proceedings) in the event of resale or re-lease upon an Event of Default hereunder. Lessee hereby acknowledges that some of the Units do not adhere to the specifications, requirements and standards of clauses (a), (b) and (c) in the preceding sentence and Lessee hereby agrees to make, within a reasonable period of time, the necessary maintenance and repairs to such Units in order that the Units will conform to all the specifications, requirements and conditions of this Section 6, including but not limited to the requirements and interchange standards of the Association of American Railroads, the Interstate Commerce Commission and the Department of Transportation, provided, however, Lessee agrees to make the necessary maintenance and repairs to any Unit or Units not meeting the specifications, requirements and conditions of this Section 6 prior to use of such Unit or Units in interchange. In any event, unless Lessee shall have exercised its option to purchase the Units hereunder, Lessee agrees to make such maintenance and repairs to the Units so that they conform to the specifications, requirements and conditions of this Section 6 prior to the termination of this Lease. In no event shall any Unit be maintained or scheduled for maintenance on a basis less frequent than the maintenance or maintenance scheduling practices employed as of the date hereof by the Lessee for similar equipment owned by the Lessee.

In the event that any Unit shall be or become lost, stolen, destroyed, worn out or irreparably damaged (excluding such damages resulting from Lessee's failure to maintain such unit in accordance with the provisions of this Lease), from any cause whatsoever, or taken or requisitioned by a condemnation or otherwise by the United States Government for a period which shall exceed the then remaining term of this Lease (or, if such taking, requisition or condemnation shall occur during a renewal term, for a period which shall exceed the then remaining renewal term) or by any other government or governmental entity resulting in loss of possession by the Lessee for a period of ninety (90) consecutive days (such occurrences being hereinafter called "Casualty Occurrences") prior to the return of such Unit in the

manner set forth in Section 10 or 13 hereof, the Lessee shall promptly (but in any event within fifteen (15) days after such Casualty Occurrence) and fully notify the Lessor and the Agent with respect thereto. On the date for the payment of rent hereunder with respect to such Unit next succeeding the delivery of such notice, the Lessee shall pay to the Lessor an amount equal to the Casualty Value (as hereinafter defined) of such Unit then due and payable, plus the rental payment or payments in respect of such Unit then due and payable on such rental payment date. Upon the making of such payment by the Lessee in respect of any Unit, the rental for such Unit shall cease to accrue, the term of this Lease as to such Unit shall terminate and (except in the case of the loss, theft, complete destruction of such Unit) the Lessor shall be entitled to recover possession of such Unit. The Lessor hereby appoints the Lessee its agent (in a fiduciary capacity) to dispose of any Unit suffering a Casualty Occurrence or any component thereof, on such terms and conditions as the Lessor may agree to. Provided that the Lessee has previously paid the Casualty Value to the Lessor and provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing, the Lessee shall be entitled to the net proceeds of such sale to the extent they do not exceed the Casualty Value of such Unit, and shall pay any excess to the Lessor. If any such Event of Default (or event which after notice or lapse of time or both would become an Event of Default) has occurred and is continuing, the Lessee shall promptly pay all such proceeds to the Lessor. The Lessee will pay all costs and expenses in connection with the sale of any Unit pursuant to a Casualty Occurrence.

The Casualty Value of each Unit as of the rent commencement date and as of any rental payment date shall be that percentage of the aggregate Purchase Price of such Unit as is set forth in Schedule B hereto opposite such date.

Whenever any Unit shall suffer a Casualty Occurrence after the final payment of rent in respect thereof is due pursuant to Section 2 or Section 12 hereof and before such Unit shall have been returned in the manner provided in Section 13 hereof, the Lessee shall promptly and fully notify the Lessor with respect thereto and shall pay to the Lessor on the rental payment date next succeeding such notice an amount equal to the Casualty Value of such Unit, which shall be an amount equal to 20% of the Purchase Price of such Unit; provided, however, that in the event the term of this Lease shall have been extended pursuant to Section 12 hereof, then the applicable Casualty Value shall be the lesser of the fair market value of such Unit or \$4,300, as of the rental payment date on or next preceding the date of such Casualty Occurrence, as agreed upon by the Lessor and the Lessee, or upon a failure to agree, determined in accordance with the appraisal procedure set forth in Section 24 hereof. Upon the making of any such payment by the

Lessee in respect of any Unit (except in the case of the loss, theft or complete destruction of such Unit) the Lessor shall be entitled to recover possession of such Unit. The Lessor hereby appoints the Lessee its agent (in a fiduciary capacity) to dispose of any Unit suffering a Casualty Occurrence or any component thereof on such terms and conditions as the Lessor may agree to. Provided that the Lessee has previously paid the Casualty Value to the Lessor and provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing, the Lessee shall be entitled to the proceeds of such sale to the extent they do not exceed the Casualty Value of such Unit, and shall pay any excess to the Lessor.

In the event of the requisition (other than a requisition which constitutes a Casualty Occurrence) for use by the United States Government or by any other government or governmental entity (hereinafter collectively called the "Government") of any Unit during the term of this Lease or any renewal thereof, all of the Lessee's obligations (including without limitation the obligation to pay rent) under this Lease with respect to such Unit shall continue to the same extent as if such requisition had not occurred, except that if such Unit is returned by the Government at any time after the end of the term of this Lease or any renewal thereof, the Lessee shall be obligated to return such Unit to the Lessor pursuant to Section 10 or Section 13 hereof, as the case may be, promptly upon such return by the Government rather than at the end of the term of this Lease or any renewal thereof, but the Lessee shall in all other respects comply with the provisions of said Section 10 or Section 13, as the case may be, with respect to such Unit. All payments received by the Lessor or the Lessee from the Government for the use of such Unit during the term of this Lease or renewal thereof shall be paid over to, or retained by, the Lessee, provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing; and all payments received by the Lessor or the Lessee from the Government for the use of such Unit during the term of this Lease or renewal thereof shall be paid over to, or retained by, the Lessee, provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing; and all payments received by the Lessor or the Lessee from the Government for the use of such Unit after the term of this Lease or any renewal thereof, shall be paid over to, or retained by, the Lessor.

Except as hereinabove in this Section 6 provided, the Lessee shall not be released from its obligations hereunder in the event of, and shall bear the risk of, any Casualty Occurrence to any Unit from and after delivery and acceptance thereof by the Lessee hereunder.

The Lessee will, at all times prior to the return of the Units to the Lessor, in accordance with the terms of this Lease (including the storage period provided under Sections 10 and 13 hereof) at its own expense, cause to be carried and maintained property insurance in respect of the Units at the time subject hereto, and the public liability insurance, in such amounts and against such risks and on such terms and conditions as are satisfactory to the Lessor and the Agent, and in any event, not less comprehensive in amounts and against risks customarily insured against by the Lessee in respect of similar equipment owned by it, but in no event shall such coverage be for amounts or against risks less than the prudent industry standard, and the benefits thereof shall be payable to the Lessor, the Agent and the Lessee, as their interests may appear, so long as the indebtedness, if any, evidenced by the Security Document shall not have been paid in full, and thereafter to the Lessor and the Lessee as their interests may appear, it being understood that the Lessee may self insure with respect to property insurance if such is its normal practice with respect to similar equipment. All policies with respect to such insurance shall name the Lessor (both in its individual and fiduciary capacity), and the Agent as additional name insureds and loss payees, as their interests may appear, shall provide for at least thirty (30) days' prior written notice to the Lessor, and the Agent, in the event of cancellation, shall include waivers by the insurer of all claims for premiums against the Lessor, and the Agent during such thirty (30) day period, and shall include waivers of all subrogation rights with respect to the Lessor, the Owner and the Agent. The Lessee shall, on or prior to the closing date hereof and not later than April 1 of each year, commencing April 1, 1981, furnish to the Lessor, and the Agent a certificate signed by a duly authorized officer specifying the policy numbers, amounts and expiration dates of all insurance policies then in effect in accordance with this paragraph, the names of the issuing companies, and the Units (if any) and risks covered thereby. With respect to all insurance that is not self insured by the Lessee hereunder, Lessee shall furnish to the Lessor, and the Agent, on the dates mentioned in the preceding sentence, a certificate of insurance of an independent insurance broker acceptable to the Lessor and the Agent evidencing the maintenance of the insurance required hereunder and shall furnish certificates evidencing renewal fifteen (15) days prior to the expiration date of such policy or policies. If the Lessor shall receive any insurance proceeds or condemnation payments in respect of a Unit suffering a Casualty Occurrence, the Lessor shall, subject to the Lessee's having made payment of the Casualty Value in respect of such Unit and provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing, pay such proceeds or condemnation payments to the Lessee up to an amount equal to the Casualty Value with respect to a Unit paid by the Lessee and any balance of such proceeds or condemnation payments shall remain the property

of the Lessor. All insurance proceeds received by the Lessor in respect of any Unit not suffering a Casualty Occurrence shall be paid to the Lessee upon proof satisfactory to the Lessor that any damage to such Unit in respect of which such proceeds were paid has been fully repaired so as to comply with the provisions of the first paragraph of this Section 6, provided no event of Default (or other event which after notice or lapse of time or both would become and Event of Default) shall have occurred and be continuing.

SECTION 7. Annual Reports. On or before March 31 in each year, commencing with the calendar year 1981, the Lessee will cause to be furnished to the Lessor, the Agent, the Investor and Mandate Financial Corporation (at the addresses shown in Section 17 hereof or, as to the Investor, at the address furnished to the Lessee thereby), a certificate signed by the Chief Executive Officer, the Chief Operating Officer, the Chief Mechanical Officer or the Vice President in charge of the operation of the Units of the Lessee or another qualified engineer satisfactory to the Lessor and the Agent (a) setting forth, as of the preceding December 31 the amount, description and numbers of all Units then leased hereunder and/or covered by the Security Document, the amount, descriptions and numbers of all Units that have suffered a Casualty Occurrence during the preceding 12 months (or since the date of this Lease in the case of the first such statement) or then withdrawn from use pending such repairs (other than running repairs) and setting forth such other information regarding the condition and state of repair of the Units as the Lessor or the Agent may reasonably request (including a description and the cost of all additions, modifications or improvements made to the Units in the preceding year), and (b) stating that all of the Units are being maintained in accordance with all rules applicable to similar equipment subject to the interchange rules of the Association of American Railroads and in accordance with all requirements of the Federal Railroad Administrator and (c) in the case of all Units repainted or repaired during the period covered by such statement, the markings required by Section 4 hereof and by Article 8 of the Security Document shall have been preserved or replaced. The Lessor shall have the right at its cost, risk and expense, by its authorized representatives, to inspect the Units and the Lessee's records with respect thereto at such reasonable times as the Lessor may request during the continuance of this Lease.

The Lessee will furnish to the Lessor and the Investor (i) within 45 days after the end of each of the first three quarterly fiscal periods of the Lessee, balance sheets and statements of income and retained earnings of the Lessee and its subsidiaries as of the close of such periods, in comparative form with the corresponding fiscal period in the preceding fiscal year, in reasonable detail and certified by any Vice President or the Treasurer of the Lessee and (ii) within 120 days after the close of each of the fiscal years of the Lessee, balance



sheets for the Lessee and its consolidated subsidiaries as of the close of such fiscal years, together with the related statements of income and retained earnings and source and application of funds for such fiscal years, in comparative form with the preceding fiscal year, all in reasonable detail and certified by a recognized national firm of independent public accountants. The Lessee will also furnish to the Lessor, the Agent and the Investor (i) within 120 days after the close of each fiscal year of the Lessee a certificate of the Lessee, signed by a principal financial officer, to the effect that the signer has reviewed the relevant terms of this Lease, and has made, or caused to be made under his supervision, a review of the transactions and condition of the Lessee during the preceding fiscal year, and that such review has not disclosed the existence during such period, nor does the signer have knowledge of the existence, as at the date of such certificate, of any condition or event which constitutes a default, an Event of Default or event which, after notice or lapse of time or both, would constitute such a default or Event of Default or, if any such condition or event existed or exists, specifying the nature and period of existence thereof and what action the Lessee has taken or is taking or proposes to take with respect thereto and (ii) from time to time such other information as any of them may reasonably request (including, but not limited to, the public reports of the Lessee filed with the Interstate Commerce Commission on Form R-1 or any public reports filed with the Securities and Exchange Commission).

SECTION 8. Disclaimer of Warranties; Compliance with Laws and Rules; Indemnification. THE LESSOR MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE DESIGN OR CONDITION OF, OR AS TO QUALITY OF THE MATERIAL, EQUIPMENT OR WORKMANSHIP IN, THE UNITS DELIVERED TO THE LESSEE HEREUNDER, AND THE LESSOR MAKES NO WARRANTY OF MERCHANTABILITY OR FITNESS OF THE UNITS OR ANY COMPONENT THEREOF, OR ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO ANY UNIT, EITHER UPON DELIVERY THEREOF TO THE LESSEE, OR OTHERWISE, it being agreed that all such risks, as between the Lessor and the Lessee, are to be borne by the Lessee; but the Lessor hereby irrevocably appoints and constitutes the Lessee its agent and attorney-in-fact during the term of this Lease to assert and enforce from time to time, in the name of and for the account of the Lessor and/or the Lessee, as their interest may appear, at the Lessee's sole cost and expense, whatever claims and rights the Lessor may have against the Builder under the provisions of Article 12 of the Security Document; provided, however, that if at any time an Event of Default shall have occurred and be continuing, the Lessor may assert and enforce, at the Lessee's sole cost and expense, such claims and rights. The Lessor shall have no responsibility or liability to the Lessee or any other person with respect to any of the following: (i) any liability, loss or damage caused or alleged to be caused directly or indirectly by any Unit or by

any inadequacy thereof or deficiency or defect therein or by any other circumstances in connection therewith; (ii) the use, operation, or performance of any Unit or any risks relating thereto; (iii) any interruption of service, loss of business or anticipated profits or consequential damages; or (iv) the delivery, operation, servicing, maintenance, repair, improvement or replacement of any Unit. Lessee expressly recognizes that the Units have been used and were subject to the Prior Lease and that Lessee accepts delivery of said Units on an "as is, where is" basis. Lessee's acceptance of a Certificate of Commencement of Lease shall be conclusive evidence as between the Lessee and the Lessor that all Units described therein are in all the foregoing respects satisfactory to the Lessee, and the Lessee will not assert any claim of any nature whatsoever against the Lessor based on any of the foregoing matters.

The Lessee agrees, for the benefit of the Lessor and the Agent, to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each Unit) with all applicable laws of the jurisdictions in which its operations involving the Units may extend, with the interchange rules of the Association of American Railroads and with all lawful rules of the Department of Transportation, the Interstate Commerce Commission and any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Units, to the extent that such laws and rules affect the title, operation or use of the Units, and in the event that, prior to the expiration of this Lease or any renewal thereof, such laws or rules require any alteration, replacement, addition or modification of or to any part of any Unit, the Lessee will conform therewith at its own expense; provided, however, that the Lessee may with the prior written consent of the Lessor and the Agent, which consent shall not be unreasonably withheld, at its own expense, in good faith, contest the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Lessor or the Agent, adversely affect the property or rights of the Lessor or the Agent, respectively, under this Lease or under the Security Document. The Lessee, at its own cost and expense, may furnish additions, modifications and improvements to the Units during the term of this Lease provided that such additions, modifications and improvements are readily removable without causing material damage to the Units. The additions, modifications and improvements made by the Lessee under the first sentence of this paragraph shall be owned by the Lessor, and the additions, modifications and improvements made by the Lessee under the second sentence of this paragraph shall be owned by the Lessee.

The Lessee agrees to indemnify, protect and hold harmless the Lessor, the Agent and the Investor from and against all

losses, damages, injuries, liabilities (including, without limitation, strict or absolute liability in tort or by statute imposed), claims and demands whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, but not limited to, reasonable counsel fees and expenses, patent liabilities, penalties and interest, arising out of or as a result of (i) the entering into or the performance of the Security Document, or this Lease, or any of the instruments or agreements referred to therein or herein or contemplated thereby or hereby, (ii) the ownership of any Unit, (iii) the ordering, acquisition, use, operation, condition, reconstruction, purchase, delivery, rejection, storage or return of any Unit, (iv) any accident in connection with the operation, use, condition, reconstruction, possession, storage or return of any Unit resulting in damage to property or injury or death to any person, except as otherwise provided in Section 13 of this Lease or (v) the transfer of title to the Units by the Agent pursuant to any provision of the Security Document. The indemnities arising under this paragraph shall continue in full force and effect notwithstanding the delivery of the Units or the full payment and performance of all obligations under this Lease or the expiration or termination of the term of this Lease, provided, however, that the foregoing indemnifications shall not apply to any failure of payment of any of the principal or interest on the Conditional Sale Indebtedness (as that term is defined in the Security Document) or to any loss, damage, injury, liability, claim or demand directly resulting from the action or omission to act of the Lessor, Agent or the Investor.

The Lessee agrees to prepare and deliver to the Lessor within a reasonable time prior to the required date of filing (or, to the extent permissible, file on behalf of the Lessor) any and all reports (other than income tax returns) to be filed by the Lessor with any Federal, state or other regulatory authority by reason of the ownership by the Lessor or the Agent of the Units or the leasing thereof to the Lessee.

SECTION 9. Default; Representations. If, during the continuance of this Lease, one or more of the following events (each such event being herein sometimes called an Event of Default) shall occur:

A. default shall be made in the payment of any amount provided for in Sections 2, 6 or 12 hereof and such default shall continue for ten days;

B. the Lessee shall make or permit any unauthorized assignment or transfer of this Lease, or any interest therein, or of the right to possession of the Units, or any thereof;

C. default shall be made in the observance or performance of any other of the covenants, conditions, representations, and agreements on the part of the Lessee contained herein and such default shall continue for 30 days after written notice from the Lessor or the Agent to the Lessee specifying the default and demanding that the same be remedied;

D. a petition for reorganization under Section 77 of the Bankruptcy Act or under any other provision of Title Eleven of the United States Code as now constituted or as may hereafter be amended, shall be filed by or against the Lessee and, unless such petition shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease, and/or the Consent, as the case may be, shall not have been duly assumed in writing, pursuant to a court order or decree, by a trustee or trustees appointed in such proceedings (whether or not subject to ratification) in such manner that such obligations shall have the same status as obligations incurred by such trustee or trustees, within 30 days after such appointment, if any, or 60 days after such petition shall have been filed, whichever shall be earlier;

E. any proceedings shall be commenced by or against the Lessee for any relief which includes, or might result in, any modification of the obligations of the Lessee under this Lease, or the consent under any bankruptcy or insolvency laws, or laws relating to the relief of debtors, readjustments of indebtedness, reorganizations, arrangements, compositions or extensions (other than a law which does not permit any readjustments of the obligations of the Lessee hereunder, or under the Consent), and, unless such proceedings shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease, and/or under the Consent, as the case may be, shall not have been and shall not continue to have been duly assumed in writing, pursuant to a court order or decree, by a trustee or trustees or receiver or receivers appointed (whether or not subject to ratification) for the Lessee or for the property of the Lessee in connection with any such proceedings in such manner that such obligations shall have the same status as obligations incurred by such a trustee or trustees or receiver or receivers, within 30 days after such appointment, if any, or 60 days after such proceedings shall have been commenced, whichever shall be earlier;

then, in any such case, the Lessor, at its option, may:

(a) proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Lessee of the applicable covenants of this Lease or to recover damages from the breach thereof; or

(b) by notice in writing to the Lessee terminate this Lease, whereupon all rights of the Lessee to the use of the Units shall absolutely cease and terminate as though this Lease had never been made, but the Lessee shall remain liable as herein provided; and thereupon the Lessor may by its agents enter upon the premises of the Lessee or other premises where any of the Units may be and take possession of all or any of such Units and thenceforth hold, possess, sell, operate, lease to others and enjoy the same free from any right of the Lessee, or its successors or assigns, to use the Units for any purposes whatever and without any duty to account to the Lessee for such action or inaction or for any proceeds arising therefrom; but the Lessor shall, nevertheless, have a right to recover from the Lessee any and all amounts which under the terms of this Lease may then be due which may have accrued to the date of such termination (computing the rental for any number of days less than a full rental period by multiplying the rental for such full rental period by a fraction of which the numerator is such number of days and the denominator is the total number of days in such full rental period) and also to recover forthwith from the Lessee as damages for loss of the bargain and not as a penalty, whichever of the following amounts the Lessor, in its sole discretion, shall specify: (x) a sum, with respect to each Unit, equal to the excess of the present value, at the time of such termination, of the entire unpaid balance of all rental for such Unit which would otherwise have accrued hereunder from the date of such termination to the end of the term of this Lease as to such Unit over the then present value of the rental which the Lessor reasonably estimates to be obtainable for the Unit during such period, such present value to be computed in each case on the basis of a 5.55% per annum discount, compounded quarterannually from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated; or (y) an amount equal to the excess, if any, of the Casualty Value as of the rental payment date on or next preceding the date of termination over the amount the Lessor reasonably estimates to be the sale value of such Unit at such time; provided, however, that in the event the Lessor shall have sold any Unit, the Lessor, in lieu of collecting any amount payable to the Lessor by the Lessee pursuant to the preceding clauses

(x) and (y) of this part (b) with respect to such Unit, may, if it shall so elect, demand that the Lessee pay the Lessor and the Lessee shall pay to the Lessor on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty, an amount equal to the excess, if any, of the Casualty Value for such Unit, as of the rental payment date on or next preceding the date of termination over the net proceeds of such sale.

In addition, the Lessee shall be liable, except as otherwise provided above, for any and all unpaid amounts due hereunder before, during or after the exercise of any of the foregoing remedies and for all reasonable attorneys' fees and other costs and expenses incurred by reason of the occurrence of any Event of Default or the exercise of the Lessor's remedies with respect thereto, including all costs and expenses incurred in connection with the return of any Unit and the cost of any indemnity provided the Agent by the Investor.

The Lessee represents and warrants as follows:

(a) The Lessee has not directly or indirectly and will not offer any Conditional Sale Indebtedness or other securities to, or solicit any offer to buy any thereof from any other person or approach or negotiate with any other person in respect thereof, so as to bring the sale of the Conditional Sale Indebtedness within the provisions of Section 5 of said Securities Act of 1933, as amended.

(b) The Lessee has furnished to the Lessor and the Investor the consolidated balance sheet of the Lessee as of December 31, 1979, and related consolidated statements of income and retained earnings for the year then ended. Such consolidated financial statements are in accordance with the books and records of the Lessee and have been prepared in accordance with generally accepted accounting principles, been applied on a consistent basis throughout the period covered thereby. The financial statements present fairly the financial condition of the Lessee at such dates and the results of its operations for such periods. The statement of changes in financial position furnished for the year 1979 fairly presents the changes in financial position for such period.

(c) No authorization or approval from any governmental or public body or authority of the United States of America, or of any of the States thereof or the District of Columbia, is necessary for the execution, delivery and performance of this Lease, the Lease Assignment or the Consent.

(d) Neither the execution and delivery of this Lease or the Consent nor the consummation of the transactions herein and therein contemplated or the fulfillment of, or compliance with, the terms and provisions hereof and thereof will conflict with, or result in a breach of, any of the terms, conditions or provisions of the certificate of incorporation (as amended) or the by-laws (as amended) of the Lessee or of any bond, debenture, note, mortgage, indenture, agreement or other instrument to which the Lessee is now a party or by which it or its property may be bound, or constitute (with the giving of notice or the passage of time or both) a default thereunder.

(e) Neither the execution and delivery by the Lessee of this Lease or the Consent nor the consummation of the transactions herein and therein contemplated nor the fulfillment of, or compliance with, the terms and provisions hereof and thereof will conflict with, or result in a breach of, any of the terms, conditions or provisions of any law, or any regulation, order, injunction or decree of any court or governmental instrumentality.

(f) No mortgage, deed of trust or other lien of any nature whatsoever which now covers or affects any property or interest therein of the Lessee, now attaches or hereafter will attach to the Units or in any manner affects or will affect adversely the right, title and interest of the Lessor or the Agent therein except that such liens may attach to the rights of the Lessee under the Lease in and to the Units. The Lessee will pay and discharge any and all liens attaching to any Unit or Units subsequent to the date of possession of the Unit or Units by the Lessee which results in a lien arising from any of the encumbrances described in the foregoing sentence.

(g) The Lessee is not entering into this Lease, or any other transaction contemplated hereby and thereby, directly or indirectly in connection with any arrangement or understanding by the Lessee in any way involving any employee benefit plan (other than a governmental plan) with respect to which it, the Lessor or the Agent is a party in interest, all within the meaning of the Employee Retirement Income Security Act of 1974 (hereinafter called ERISA).

Lessee shall furnish to Lessor, Agent and Investor an opinion of counsel for the Lessee, dated on the date of execution of this Lease to the effect set forth in subparagraphs (c, excluding the Lease Assignment), (d), (e), (f, excluding the last sentence in that subparagraph) and (g) of Lessee's representations of this Section 9 in so far as such matters relate to the Lessee, and to the further effect that:

(i) the Lessee is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and is duly qualified to do business and is in good standing in such other jurisdictions in which the business and activities of the Lessee require such qualification;

(ii) This Lease and the Consent have been duly authorized, executed and delivered by the Lessee and are legal and valid instruments binding on the Lessee.

In giving the opinion specified in this Section 9, counsel may qualify its opinion to the effect that any agreement is a legal, valid and binding instrument enforceable in accordance with its terms by a general reference to limitations as to enforceability imposed by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and as to any matter governed by the law of the jurisdiction other than the State of Idaho or the United States.

The remedies in this Lease provided in favor of the Lessor shall not be deemed exclusive, but shall be cumulative, and shall be in addition to all other remedies in its favor existing at law or in equity. The Lessee hereby waives any mandatory requirements of law, now or hereafter in effect, which might limit or modify the remedies herein provided, to the extent that such waiver is not, at the time in question, prohibited by law. The Lessee hereby waives any and all existing or future claims to any offset against the rental payments due hereunder, and agrees to make rental payments regardless of any offset or claim which may be asserted by the Lessee or on its behalf.

The failure of the Lessor to exercise the rights granted it hereunder upon the occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies.

SECTION 10. Return of the Units upon Default. If this Lease shall terminate pursuant to Section 9 hereof, the Lessee shall forthwith delivery possession of the Units to the Lessor. Each Unit so delivered shall be in the same operating order, repair and condition as when originally delivered to the Lessee, reasonable wear and tear excepted. For the purpose of delivering possession of any Unit or Units to the Lessor as above required, the Lessee shall at its own cost, expense and risk:



(a) forthwith and in the usual manner (including, but not by way of limitation, giving prompt telegraphic and written notice to the Association of American Railroads and all railroads to which any Unit or Units have been interchanged to return the Unit or Units so interchanged) place such Units upon such storage tracks of the Lessee as the Lessor reasonably may designate;

(b) permit the Lessor to store such Units on such tracks at the risk of the Lessee without charge for insurance, rent or storage until such Units have been sold, leased or otherwise disposed of by the Lessor; and

(c) transport the same to any place on the lines of railroad operated by it or any of its affiliates or to any connecting carrier for shipment, all as directed by the Lessor.

The assembling, delivery, storage and transporting of the Units as hereinbefore provided shall be at the expense and risk of the Lessee and are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Units. During any storage period, the Lessee will, at its own cost and expense, maintain and keep the Units in good order and repair and will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any such Unit, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence.

All amounts earned in respect of the Units after the date of termination of this Lease shall belong to the Lessor and, if received by the Lessee, shall be promptly turned over to the Lessor. In the event any Unit is not assembled, delivered and stored, as hereinabove provided, within 60 days after such termination, the Lessee shall, in addition, pay to the Lessor for each day thereafter an amount equal to the amount, if any, by which .041647% of the Purchase Price of such Unit for each such day exceeds the actual earnings received by the Lessor for such Unit for each such day.

Without in any way limiting the obligation of the Lessee under the foregoing provisions of this Section 10, the Lessee hereby irrevocably appoints the Lessor as the agent and attorney-

in-fact of the Lessee, with full power and authority, at any time while the Lessee is obligated to deliver possession of any Unit to the Lessor, to demand and take possession of such Unit in the name and on behalf of the Lessee from whomsoever shall be in possession of such Unit at the time.

SECTION 11. Assignment; Possession and Use. This Lease shall be assignable in whole or in part by the Lessor without the consent of the Lessee, but the Lessee shall be under no obligation to any assignee of the Lessor except upon written notice of such assignment from the Lessor. The Lessee hereby acknowledges notice of the assignment in respect of this Lease set forth in the Assignment of Lease and Agreement dated as of the date hereof, between the Lessor and the Agent (a copy of which has been delivered to the Lessee) and agrees to make payments to the Agent as provided therein. The rights of the Lessor hereunder (including, but not limited to, the rights under Section 5, 6, 8 and 9 and the rights to receive the rentals payable under this Lease) shall inure to the benefit of the Agent as assignee thereunder in the manner and to the extent therein provided. In the event that, pursuant to such assignment and the rights of the Agent thereunder and under the Security Document, the Agent shall at any time cause this Lease to be terminated, the Lessee agrees that following the payment in full by the Vendee (as defined in the Security Document) of the entire unpaid Conditional Sale Indebtedness (as defined in the Security Document) together with interest thereon, the Vendee may enforce compliance by the Lessee with its covenants and agreements under this Lease.

So long as the Lessee shall not be in default under this Lease and no event of default exists under the Security Document, the Lessee shall be entitled to the possession and use of the Units in accordance with the terms of this Lease but, without the prior written consent of the Lessor and the Agent, the Lessee shall not assign or transfer its leasehold interest under this Lease in, or sublease any of, the Units. Lessor hereby acknowledges that the St. Maries River Railroad Company, a wholly owned subsidiary of Lessee and Idaho Western Railway Co., a California corporation, (hereinafter collectively referred to as "Operators") shall operate and use the Equipment as provided in this Lease. Notwithstanding the preceding sentence Lessee shall not be released from any of its obligations under this Lease and Lessee hereby expressly acknowledges that notwithstanding the execution of this Lease by Operators, Lessee shall be responsible for Operators' actions and shall indemnify, protect and hold harmless the Lessor and Agent and the Investor from and against all losses, damages, injuries, liabilities (including, without limitation, strict or absolute liability in tort or by statute imposed) claims and demands whatsoever, regardless of

cause thereof, and expenses in connection with Operators use of the Equipment.

The Lessee, at its own expense, will promptly pay or discharge or cause to be duly discharged any and all sums claimed by any party which if unpaid, might become a lien, charge, security interest or other encumbrance (other than an encumbrance created by the Lessor or the Agent after the date hereof or resulting from claims against the Lessor or the Agent not related to the ownership of the Units), upon or with respect to any Unit or the interest of the Lessor, the Agent or the Lessee therein, and will promptly discharge any such lien, charge, security interest or other encumbrance which arises; provided, however, that the Lessee shall not be required to effect any such payment and discharge so long as it is contesting in good faith and by appropriate legal proceedings the validity of such sum, the nonpayment thereof does not, in the opinion of the Lessor, adversely affect the title, property or rights of the Lessor to any Unit hereunder or under the Security Document and the Lessee shall have posted a bond or provided additional security reasonably satisfactory to the Lessor and the Agent. The Lessee shall not, without the prior written consent of the Lessor, part with the possession or control of, or suffer or allow to pass out of its possession or control, any of the Units, except to the extent permitted by the provisions of the next succeeding paragraph hereof.

Subject to the terms of this Lease, the Lessee shall be entitled to the possession of the Units and to the use thereof by it or any affiliate upon lines of railroad owned or operated by it or any such affiliate or upon the lines of railroad over which the Lessee or any such affiliate has trackage or other operating rights or over which railroad equipment of the Lessee or any such affiliate is regularly operated pursuant to contract, and also to permit the use of the Units upon connecting and other carriers in the usual interchange of traffic and equipment, but only upon and subject to all the terms and conditions of this Lease, including the last paragraph of this Section 11, and the Security Document. The Lessee may receive and retain compensation for such use from other railroads so using any of the Units.

Nothing in this Section 11 shall be deemed to restrict the right of the Lessee to assign or transfer its leasehold interest under this Lease in the Units or possession of the Units to any corporation incorporated under the laws of any state of the United States of America or the District of Columbia (which shall have duly assumed the obligations of the Lessee hereunder) into or with which the Lessee shall have become merged or consolidated or which shall have acquired the railroad properties of the Lessee as an entirety or substantially as an entirety,

provided, that such assignee or transferee (i) will not, upon the effectiveness of such merger, consolidation or acquisition, be in default under any provision of this Lease and (ii) will, upon such effectiveness, have a net worth equal to or greater than that of the Lessee immediately prior to such effectiveness.

The Lessee agrees that during the term of this Lease, it (i) will not assign any Unit to service involving the regular operation and maintenance thereof outside the United States of America and (ii) will not at any time permit the Units then subject to this Lease to be located outside the United States of America or used in a manner which would disqualify the Units as property eligible for the investment tax credit allowed under Section 38 and related sections of the Internal Revenue Code of 1954, as amended.

SECTION 12. Renewal Option; Purchase Option. Provided that this Lease has not been earlier terminated and the Lessee is not in default hereunder, the Lessee may elect, by written notice delivered to the Lessor not less than six months prior to the end of the original term of this Lease, to extend the term of this Lease in respect of all, but not fewer than all, the Units then covered by this Lease for one additional three-year period commencing on the scheduled expiration of the original term of this Lease, at a fixed rate quarterly rental in an amount equal to 3.575512% of the Purchase Price of the Units subject to this Lease, such fixed rate quarterly rental to be paid in advance on March 1, June 1, September 1 and December 1 in each year of the applicable extended term.

Provided that this Lease has not been earlier terminated and the Lessee is not in default hereunder, the Lessee shall have the option, exercised upon written notice delivered to the Lessor not less than Six months prior to the end of the original term of this Lease or the extended term hereof to purchase all but not less than all of the Units of Equipment then leased hereunder. The purchase price for the Units at the end of the original term of this Lease shall be \$5,256 per Unit and the purchase price for the Units at the end of the extended term of this Lease shall be \$4,300 per Unit.

Payment of the option price set forth in the preceding paragraph shall be made at the place of payment specified in Section 2 of this Lease in immediately available funds against delivery of (i) a bill of sale (without warranties) transferring and assigning to the Lessee all right, title and interest of the Lessor in and to such Equipment; (ii) a satisfaction and discharge of this Lease duly executed in recordable form by the Lessor or its successors and assigns as to such Equipment; and (iii) satisfaction of all security interests in respect of such Equipment duly executed in recordable form by the respective secured parties.

Notwithstanding any election of the Lessee to purchase as provided in this Section 12, the provisions of Section 6 hereof shall continue in full force and effect until the date of purchase and the passage of ownership of the Units purchased by the Lessee upon such date except that the amount payable under Section 6 hereof shall be the greater of the amount otherwise payable under said section 6 or the purchase price payable under this Section 12.

SECTION 13. Return of Units upon Expiration of Term.

As soon as practicable on or after the expiration of the original or any extended term of this Lease with respect to any Unit but in any event not later than 90 days after such expiration, the Lessee will, at its own cost and expense, at the request of the Lessor, deliver possession of such Units to the Lessor upon such storage tracks of the Lessee or any of its affiliates as the Lessor may designate or, in the absence of such designation, as the Lessee may select, and permit the Lessor to store such Unit on such tracks for a period not exceeding 90 days and transport the same, at any time within such 90 day period, to any connecting carrier for shipment, all as directed by the Lessor, the movement and storage of such Unit to be at the expense and risk of the Lessee. During any such storage period the Lessee will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any Unit, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence. Each Unit returned to the Lessor pursuant to this Section 13 shall (i) be in the same operating order, repair and condition as when originally delivered to the Lessee, ordinary wear and tear excepted, (ii) meet the standards then in effect under the Interchange Rules of the Association of American Railroads, if applicable, and/or the applicable rules of any governmental agency or other organization with jurisdiction and (iii) have removed therefrom by the Lessee without cost or expense to the Lessor all additions, modifications and improvements which the Lessee owns pursuant to Section 8 hereof and returned the Units to the original operating order, repair and condition as when originally delivered to the Lessee, ordinary wear and tear excepted. The assembling, delivery, storage and transporting of the Units as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises, the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Units.

All amounts earned in respect of the Units after the end of the term of this Lease shall belong to the Lessor and, if received by the Lessee, shall be promptly turned over to the Lessor. In the event any Unit is not assembled, delivered and stored, as hereinabove provided, within 60 days after the end of the term of this Lease, the Lessee shall in addition, pay to the Lessor for each day thereafter an amount equal to the amount, if any, by which .041647% of the Purchase Price of such Unit for each such day exceeds the actual earnings received by the Lessor on such Unit for each such day.

SECTION 14. Severability. Any provision of this Lease which is prohibited or unenforceable in any jurisdiction, shall be, as to such jurisdiction, ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 15. Recording Expenses. The Lessee, at its own expense, will cause this Lease, and the Lease Assignment to be filed and recorded with the Interstate Commerce Commission pursuant to 49 U.S.C. §11303. The Lessee from time to time will undertake the execution, acknowledgement, delivery, filing, recording and depositing and refiling, re-registering, re-recording and re-depositing any and all further instruments required by law or reasonably requested by the Lessor or the Agent for the purpose of proper protection, to their satisfaction, of the Lessor's and the Agent's respective rights in the Units, or for the purpose of carrying out the intention of this Lease or the assignment hereof to the Agent, or the Security Document; and the Lessee will promptly furnish to the Agent and the Lessor evidences of all such filing, registering, recording or depositing, and an opinion or opinions of counsel for the Lessee with respect thereto satisfactory to the Agent and the Lessor. This Lease and the Security document shall be filed and recorded with the Interstate Commerce Commission prior to the delivery and acceptance hereunder of any Unit. The Lessee represents that the Units are intended for use in interstate commerce within the United States.

SECTION 16. Interest on Overdue Rentals. Anything to the contrary herein contained notwithstanding, any nonpayment of rentals and other obligations when due hereunder shall result in the obligation on the part of the Lessee promptly to pay to the Investor an amount equal to the higher of 11-1/2% per annum or 2 points over the Prime Rate, as defined in Section 20 hereof, of the overdue rentals and other obligations for the period of time during which they are overdue or such lesser amount as may be legally enforceable.

SECTION 17. Notices. Any instruction or notice required or permitted to be given by either party hereto to the other shall be deemed to have been given when deposited in the United States mails, certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

if to the Lessor,

In care of Esselen Associates, Inc.,  
1351 Washington Boulevard,  
Stamford, Connecticut 06902;

if to the Lessee, at

Potlatch Corporation  
One Maritime Plaza  
San Francisco, California 94111

Attention of President

if to the Operator, at

St. Maries River Railroad Company  
P.O. Box 1016  
Lewiston, Idaho 83501

Attention of James M. Benson

if to the Agent, at

79 South Main Street  
Salt Lake City, Utah 84111,

Attention of Trust Department,  
Corporate Division;

in each case with a copy to Mandate Financial Corporation  
at

155 Jackson, Suite 2205  
San Francisco, California 94104;

and to The Provident Bank, at

One East Fourth Street  
Cincinnati, Ohio 45202

Attention Robert C. Lintz - Executive  
Vice President

and to Messrs. Keating, Muething & Klekamp at

18th Floor, Provident Tower  
One East Fourth Street  
Cincinnati, Ohio 45202

Attention: Jeffrey K. Heinichen

or addressed to any such party at such other address as such party shall hereafter furnish to the other party in writing. Copies of each such notice shall be given to the Agent as hereinabove provided.

SECTION 18. Effect and Modification of Lease. This Lease exclusively and completely states the rights of the Lessor and the Lessee with respect to the leasing of the Units and supersedes all other agreements, oral or written, with respect thereto. No variation or modification of this Lease and no waiver of any of its provisions or conditions shall be valid unless in writing and signed by duly authorized officers of the Lessor and the Lessee.

SECTION 19. Definitions. If and so long as this Lease is assigned to the Agent (or any successor thereto) for collateral purposes, wherever the term "Lessor" is used in this Lease it shall also apply and refer to the Agent and any successors thereto unless the context shall otherwise require and except that the Agent shall not be subject to any liabilities or obligations under this Lease; and the fact that the Agent is specifically named in certain provisions shall not be construed to mean that the Agent (and any successors thereto) is not entitled to the benefits of other provisions where only the Lessor is named or where only the Agent, as the case may be, is named.

SECTION 20. Federal Income Taxes. (A) In entering into the transactions contemplated hereby and by the Security Document, it is the intention of the Lessor that such transactions will continue to result in making available to the Lessor the tax benefits (the "Tax Benefits") for the purpose of determining its liability for Federal income tax purposes which result from the following assumptions:

(a) the Lease constitutes a true lease;

(b) the Lessor will continue to be entitled to deduct the interest (the "Interest Deduction") payable by the Lessor under the Security Document in computing its taxable income;



(c) the Lessor is entitled to the full 10% investment tax credit (the "Investment Credit") allowed under Section 38 and related sections of the Internal Revenue Code of 1954, as amended (the "Code"), in respect of the portion of the Purchase Price of the Units equal to the Reconstruction Cost (as defined in the Security Document);

(d) in computing its taxable net income the Lessor will continue to be entitled to depreciate that portion of the Purchase Price of the Units equal to the Reconstruction Cost in accordance with any of the methods set forth in Section 167(b)(1), (2) or (3) of the Code;

(e) in computing its taxable net income, the Lessor will continue to be entitled to depreciate the Units in accordance with the provisions of Section 167(m) of the Code for an asset depreciation period of 12 years using, with respect to that portion of the Purchase Price of the Units equal to the Reconstruction Cost, the double declining balance method of depreciation with a change, not requiring the consent of the Commissioner of Internal Revenue, to the sum of the years digits method provided in Section 167(b)(3) of the Code when most beneficial to the Lessor, and using, with respect to that portion of the Purchase Price of the Units equal to the Hulk Purchase Price (as defined in the Security Document), the 150% declining balance method of depreciation with a change, not requiring the consent of the Commissioner of Internal Revenue, to the straight line method of depreciation when most beneficial to the Lessor (the "Class Life Deduction");

(f) the depreciation referred to in subsection (e) above will continue to be available to the Lessor as to each Unit delivered to and accepted by the Prior Lessee pursuant to Section 1 of the Prior Lease on the assumption that the Lessor utilizes either the half-year convention as provided in Treasury Regulation Section 1.67(a)-11(c)(2)(iii) or the modified half-year convention as provided in Reg. Sec. 1.167(a)-11(c)(2)(ii) with respect to such Units;

(g) in depreciating the Units pursuant to subsections (e) and (f) above, the Lessor may take into account a salvage value, after the reduction allowed by Section 167(f) of the Code, of zero; and

(h) all amounts includable in gross income by the Lessor with respect to this Lease will be treated as income from sources within the United States.

(B) The Lessee agrees that neither it nor any corporation controlled by it, in control of it, or under common control with it, directly or indirectly, will at any time during the term of the Lease or any extended term thereof take any action or fail to take any action or file any returns, certificates or other documents inconsistent with the foregoing or which would increase the amount of rentals required to be taken into income by the Lessor over the amounts specified to be payable under the Lease on the dates due thereunder and that each of such corporations will file such returns, take such action and execute such documents, and keep and make available for inspection and copying by the Lessor such records (other than the Lessee's corporate income tax returns), as may be reasonable and necessary to facilitate accomplishment of the intent hereof.

The Lessee represents and warrants that the Lessee will not at any time during the term of the Lease (i) use, or fail to use, any Unit in such a way as to cause any amounts includable in the gross income of the Lessor for Federal income tax purposes to be treated as derived from or allocable to sources outside the United States, or (ii) allow any Unit to cease to be Section 38 property under the Code.

The Lessee agrees to indemnify, protect and hold harmless the Lessor and the Agent from and against all losses, damages, liabilities and claims associated with Lessee's acts or failure to act or misrepresentation under this Section 20, (except as a direct result of the occurrence of any Excluded Event set forth below) and if the Lessor shall lose, or shall not have, or shall lose the right to claim or shall suffer a disallowance of or shall be required to recapture, all or any portion of the Tax Benefits with respect to all or part of any Unit, then the Lessee shall pay to the Lessor on each of the dates provided herein for payment of the installments of rental hereunder commencing with the first such date following the date on which the liability of the Lessee hereunder shall become fixed as hereinafter provided, such sums which (after deduction of all taxes required to be paid by the Lessor on the payment of such sums under the laws of the United States or any political subdivision thereof), when taken together with the rental installments due on such dates hereunder, will, in the reasonable opinion of the Lessor, cause the Lessor's net after tax return in respect of such Unit hereunder to equal the net after tax return (computed on the same assumptions as utilized by the Lessor in originally evaluating the original transaction (Prior Lease) utilizing the assumptions in the first paragraph of this Section 20) in respect of such Unit hereunder that would have been available if the Lessor had been entitled to utilization of all of such Tax Benefits. In the event that the Lease is terminated with respect to any Unit prior to the

time the Lessee is obligated to make payments to the Lessor as set forth in the preceding sentence, then the Lessee shall pay to the Lessor, on or before 30 days after the liability of the Lessee hereunder shall become fixed as hereinafter provided, such lump sum (calculated in the same manner as set forth in the preceding sentence) as shall be necessary in the reasonable opinion of the Lessor to cause the Lessor's net after tax return in respect of such Unit hereunder to the date thereof to equal the net after tax return (computed on the same assumptions as utilized by the Lessor in originally evaluating the original transaction (Prior Lease) utilizing the assumptions in the first paragraph of this Section 20) in respect of such Unit hereunder that would have been available if the Lessor had been entitled to utilization of such Tax Benefits.

Anything in the preceding paragraph to the contrary notwithstanding, the Lessee shall not be required to make any payment to the Lessor provided for herein if the Lessor shall have lost, or shall not have, or shall have lost the right to claim, or shall have suffered a disallowance of, or shall have been required to recapture all or any portion of any Tax Benefit with respect to all or part of such Unit as a direct result of the occurrence of any of the following events (hereinafter called Excluded Events):

(i) a Casualty Occurrence with respect to such Unit, if the Lessee shall have paid to the Lessor the amounts stipulated under Section 6 hereof;

(ii) a voluntary transfer or other voluntary disposition by the Lessor of any interest in such Unit (except the transfer of disposition contemplated by the Transfer Agreement [as defined in the Security Document] or the subjection of such Unit to the Security Document) or the voluntary reduction by the Lessor of its interest in the rentals for such Unit hereunder (except pursuant to any assignment thereof to the Agent as security) or any transfer or disposition by the Lessor resulting from bankruptcy or other proceedings for the relief of debtors in which the Lessor is the debtor (whether voluntary or involuntary) of any interest in such Unit or in the rentals therefor hereunder unless, in each case, an Event of Default hereunder shall have occurred and be continuing;

(iii) the amendment of the Security Document without the prior written consent of the Lessee;

(iv) the failure of the Lessor to claim the Investment Credit, the Class Life Deduction or the Interest Deduction,

as applicable, in its Federal income tax return for the appropriate year or the failure of the Lessor to follow proper procedure in claiming any Tax Benefit;

(v) the failure of the Lessor to have sufficient liability for tax against which to credit such Investment Credit or sufficient income to benefit from the Class Life Deduction or the Interest Deduction, as applicable;

(vi) any change in corporate income tax rates under the Code or any change in tax law;

(vii) the election by the Lessor pursuant to Subchapter S of the Code to be taxed as a tax-option corporation; or

(viii) the failure of the Lessor to contest a claim in the manner hereinafter set forth in this Subsection B.

The Lessor agrees that if, in the opinion of its or the Lessee's independent tax counsel who is acceptable to the Lessor (herein referred to as Counsel), a bona fide claim to all or a portion of the Tax Benefits with respect to any Unit exists in respect of which the Lessee would otherwise be required to make payments to the Lessor pursuant hereto, the Lessor shall, upon request and at the expense of the Lessee, contest such matter in such forum as it, in its sole judgment, shall select; provided, however, that the Lessor shall not be obligated to take any such legal or other appropriate action unless it has received an opinion from such independent counsel selected by the Lessee and acceptable to the Lessor that there is a reasonable basis for contesting such matter and the Lessee shall first have indemnified the Lessor for all liabilities and expenses which may be entailed therein and the Lessee shall have advanced to the Lessor such sums as the Lessor may reasonably deem necessary to pay the costs of such contest. The Lessor may, at its option, take such action prior to making payment of any tax and interest and/or penalty attributable to the disallowance or recapture with respect to the Lessor of all or any portion of the Tax Benefits with respect to any Unit (a "Tax Payment") or may make such Tax Payment and then sue for a refund. If the Lessor takes such action prior to making such Tax Payment, such sums payable hereunder need not be paid by the Lessee while such action is pending. In such case, if the Final Determination shall be adverse to the Lessor, the sums payable hereunder shall be computed by the Lessor as of the date of such Final Determination and the Lessee shall commence payment thereof on the rental payment date under the Lease next succeeding such Final Determination and, on or before such rental payment date, the Lessee shall pay to the Lessor as an additional payment hereunder an amount equal to all interest and penalty paid by

the Lessor in respect of such Final Determination, together with interest thereon from the date such payment is made by the Lessor to the date the Lessee reimburses the Lessor thereof at the rate of interest charged by The Chase Manhattan Bank, National Association, to its prime commercial customers on short-term unsecured borrowings (the "Prime Rate") in effect on the date of such Final Determination. If the Lessor makes such Tax Payment prior to contesting the matter, the sums payable hereunder shall commence to be payable by the Lessee on the first rental payment date under the Lease after such Tax Payment is made and, on or before such rental payment date, the Lessee shall pay to the Lessor as an additional payment hereunder an amount equal to all interest and penalty paid by the Lessor included in such Tax Payment. If the Lessor sues for a refund after making such Tax Payment and the Final Determination shall be in favor of the Lessor, no future payments shall be due hereunder in respect of such matter (or an appropriate reduction shall be made if the Final Determination is partly in favor of and partly adverse to the Lessor). In addition, the Lessee and the Lessor shall adjust their accounts so that (a) the Lessor pays to the Lessee (x) an amount equal to the sums theretofore paid by the Lessee to the Lessor (or appropriate part thereof if the Final Determination is partly in favor of and partly adverse to the Lessor) on or before such next succeeding rental payment date together with interest thereon at the Prime Rate for the period such sums were paid to the Lessor to the date the Lessor pays to the Lessee an amount equal to such sums, and (y) the amount of any penalty or interest refunded to the Lessor as a result of such Final Determination and any interest paid to the Lessor by the government on such refund, promptly upon receipt thereof and (b) the Lessee pays to the Lessor an amount equal to interest at the Prime Rate on the amount of the tax refund made in respect of the Tax Payment (excluding any interest or penalty included therein) for the period from the date of the original payment of the Tax Payment by the Lessor to the date such tax refund is received by the Lessor, such Prime Rate to be calculated in either case as from time to time in effect during the respective periods.

"Final Determination" for the purpose of this Section 20 means a final decision of a Court of competent jurisdiction after all allowable appeals have been exhausted by either party to the action. Neither concession by the Lessor of any of the aforementioned Tax Benefits in the over-all settlement of a controversy with the Internal Revenue Service either at the administrative level or at the court level nor the failure to recover a refund in whole or in part with respect to the disallowance of such Tax Benefit which is the result of the setoff against the claim for refund based upon the loss of such Tax Benefits where the matters set off do not relate to such Tax

Benefits will constitute an adverse "final determination" causing the aforementioned additional payments to accrue to the Lessor. If the Lessor agrees to the disallowance of a claim for refund based upon the loss of Tax Benefits because of the assertion against it of offsets involving other issues, the Lessor shall advise the Lessee of this decision within 30 days of its making and such decision will be treated as the receipt of a refund by the Lessor for the purposes of the above provisions.

(C) In the event and to the extent that the cost of any improvement and/or addition (hereinafter called the "Alterations") to a Unit made by the Lessee, under and pursuant to the terms hereof or otherwise, is required to be included in the gross income of the Lessor for Federal income tax purposes, then the Lessee shall pay to the Lessor on each of the dates provided herein for payment of the installments of rental commencing with the first such date following the date on which the Lessee is required to furnish written notice of such inclusion to the Lessor pursuant to the last paragraph of this Subsection (C), such sums which (after deduction of all taxes required to be paid by the Lessor on the receipt thereof under the laws of the United States or any political subdivision thereof), when taken together with the rental installments due on such dates hereunder, will, in the reasonable opinion of the Lessor, cause the Lessor's net after tax return (calculated on the same basis as used by the Lessor in originally evaluating this transaction) to equal the net after tax return that would have been realized by the Lessor if the cost of such Alterations had not been includable in the Lessor's gross income.

For purposes of this Subsection (C) the cost of Alterations made by the Lessee shall be deemed to be "required to be included in the gross income of the Lessor for Federal income tax purposes" if such inclusion is required by (i) any private ruling letter issued to the Lessor by the Internal Revenue Service that has not been revoked or otherwise rendered inapplicable at the time the cost of said Alterations is incurred; (ii) any provision of the Code or the applicable regulations thereunder; or (iii) any published revenue ruling of the Internal Revenue Service which has not been held invalid by a court having ultimate appellate jurisdiction over the Federal income tax liability of the Lessor.

The Lessor agrees that it will, upon the written request and at the sole expense of the Lessee (A) seek a modification of any private ruling letter described in (i) of the preceding paragraph to eliminate the requirement that the cost of Alterations be included in the Lessor's gross income and (B) contest the inclusion of the cost of Alterations in its gross income if such

inclusion is required pursuant to (ii) and (iii) of the preceding paragraph in such forum as it, in its sole judgment shall select; provided, however, that the Lessor shall not be required to contest such inclusion unless it has received an opinion from independent counsel selected by the Lessee and acceptable to the Lessor that there is a reasonable basis for contesting such inclusion and the Lessee has advanced to the Lessor such sums as the Lessor may reasonably deem necessary to pay the costs of such contest.

The Lessee agrees that, within 30 days after the closing of any calendar year (or in the event the Lessor gives the Lessee written notice that the Lessor's taxable year closes on a date specified therein other than December 31, within 30 days after said date) in which the Lessee has made Alterations which are required to be included in the gross income of the Lessor for Federal income tax purposes, the Lessee will give written notice thereof to the Lessor describing such Alterations in reasonable detail and specifying the cost thereof with respect to each Unit.

(D) For purposes of Subsections A, B and C of this Section 20 the term "Lessor" shall include any affiliated group, within the meaning of Section 1504 of the Code, of which the Lessor is a member if consolidated returns are filed for such affiliated group for Federal income tax purposes.

(E) The obligations and liabilities of the Lessee and the Lessor arising under this Section 20 shall continue in full force and effect, notwithstanding the expiration of this Lease, until all such obligations have been met and such liabilities have been paid in full. All of the covenants, indemnities, representations, warranties and agreements of the Lessee and the Lessor set forth in this Section 20 shall survive the expiration or earlier termination of this Lease.

(F) All amounts due the Lessor under this Section 20 shall be calculated in good faith by the Lessor and the Lessor will provide the Lessee with a certificate of an officer of the Lessor setting forth in reasonable detail the figures and method used in making such calculation and the Lessee will have 30 days to demonstrate in writing any error in the Lessor's calculation. The Lessor shall determine within 30 days after receiving the Lessee's written statement of any error in the Lessor's calculation, whether any error has in fact been made by the Lessor in its calculation; provided, however, that the Lessee hereby agrees that it will not have the right to inspect the tax returns or related documents of the Lessor or any affiliate of the Lessor in order to confirm the calculations of the Lessor pursuant to this Section 20. If the Lessor and the Lessee cannot agree pursuant to this Subsection 20(F) on the amounts due the Lessor under this

Section 20, the disagreement shall be submitted to the firm of independent public accountants then examining the financial statements of the Lessor for a final and binding determination. Such determination shall be in lieu of any judicial or other procedures for the settlement of such disagreement, and the Lessor and the Lessee hereby consent and agree not to assert any judicial or other procedures in connection therewith. The expenses or having such accounting firm make such determination shall be borne solely by the Lessee.

Unless otherwise directed by the Lessor in accordance with the next following sentence, all payments provided to be made to the Lessor pursuant to this Section 20 shall be made by check of the Lessee payable to the order of the Lessor and mailed to the Lessor, certified mail, postage prepaid, at its address set forth in Section 17. In the event the Lessor shall experience what it deems to be unreasonably delays in collection due to such method of payment, the Lessor may at any time thereafter direct the Lessee in writing to make all such future payments by wire transfer of immediately available funds to such bank in the continental United States as the Lessor shall designate for the account of the Lessor, and the Lessee agrees to make all such future payments in such manner.

SECTION 21. Execution. This Lease may be executed in several counterparts together constituting but one and the same instrument, but the counterpart delivered to the Lessor shall be deemed to be the original counterpart. It shall not be necessary that any counterpart be signed by both parties so long as each party shall sign at least one counterpart. This Lease shall be valid, binding and effective at such time as the Agent shall have received (or as to which the Agent shall have received attested telegraphic communication confirming execution of) counterparts executed by the Lessor and the Lessee. Although this Lease is dated as of the date first set forth above for convenience, the actual date or dates of execution hereof by the parties hereto is or are, respectively, the date or dates stated in the acknowledgements hereto annexed.

SECTION 22. Lessor's Rights To Perform. If the Lessee fails to perform or comply with any of its agreements contained herein, the Lessor may upon notice to the Lessee itself perform or comply with such agreement, and the amount of the reasonable cost and expenses of the Lessor incurred in connection with such performance or compliance, together with interest on such amount at the rate per annum specified in Section 16 hereof, shall be provided by the Lessee upon demand except as otherwise provided



in this Lease. No such performance or compliance by the Lessor shall be deemed a waiver of rights and remedies of the Lessor or any assignee of the Lessor against the Lessee hereunder.

SECTION 23. Law Governing. The terms of this Lease and all rights and obligations hereunder shall be governed by the laws of the State of Idaho; provided, however, that the parties shall be entitled to all rights conferred by 49 U.S.C. Section 11303 and such additional rights arising out of the filing or deposit hereof, if any, and of any assignment hereof as shall be conferred by the laws of the several jurisdictions in which this Lease or any assignment hereof shall be filed or deposited.

SECTION 24. Appraisal, Arbitration. In the event a determination of Fair Market Value is required under this Lease, Fair Market Value shall be determined on the basis of, and shall be equal in amount to, the value which would obtain in an arms-length transaction between an informed and willing purchaser (other than (i) a lessee currently in possession or (ii) a used equipment dealer) and an informed and willing seller under no compulsion to sell and, in such determination, costs of removal from the location of current use shall not be a deduction from such value.

If the Lessor and the Lessee are unable to agree upon a determination of the Fair Market Value of the Units, such value shall be determined in accordance with the foregoing definitions, respectively, by the following procedure: If either party to such determination shall have given written notice to the other requesting determination of such value by this appraisal procedure, the parties shall consult for the purpose of appointing a qualified independent appraiser by mutual agreement. If no such appraiser is so appointed within 10 business days after such notice is given, each party shall appoint an independent appraiser within 15 business days after such notice is given, and the two appraisers so appointed shall within 20 business days after such notice is given appoint a third independent appraiser. If no such third appraiser is appointed within 20 business days after such notice is given, either party may apply, to make such appointment, to the American Arbitration Association in New York City, and both parties shall be bound by any appointment so made. Any appraiser or appraisers appointed pursuant to the foregoing procedure shall be instructed to determine such value of the Units within 30 days after his or their appointment. If the parties shall have appointed a single appraiser or if either party shall have failed to appoint an appraiser, the determination of such value of the single appraiser appointed shall be final. If three appraisers shall be appointed, the determination of the appraiser which differs most from the other two appraisers shall be excluded, the remaining two determinations shall be averaged and such latter average shall be final

and binding upon the parties hereto as such value. The appraisal proceedings shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association as in effect on the date hereof, except as modified hereby. The provision for this appraisal procedure shall be the exclusive means of determining Fair Market Value and shall be in lieu of any judicial or other procedure for the determination thereof, and each party hereto hereby consents and agrees not to assert any judicial or other procedures. The expenses of the appraisal procedures shall be borne by the Lessee.

IN WITNESS WHEREOF, the parties hereto, each pursuant to due corporate authority, have caused this instrument to be executed in their respective corporate names by duly authorized officers, and their respective corporate seals to be hereunto affixed and duly attested, all as of the date first above written.

[Corporate Seal]

E. A. LEASING CORPORATION

ATTEST:

BY: \_\_\_\_\_  
Vice President

[Corporate Seal]

POTLATCH CORPORATION

ATTEST:

Robert F. Wulf  
Assistant Secretary

BY: Loderick H. Steele  
President

[Corporate Seal]

ST. MARIES RIVER RAILROAD COMPANY

ATTEST:

Robert F. Wulf  
Assistant Secretary

BY: Richard J. DeLoe  
President

STATE OF CONNECTICUT    )  
                                  : SS.  
COUNTY OF FAIRFIELD    )

On this \_\_\_\_\_ day of \_\_\_\_\_, 1980, before me personally appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, says that he is a Vice President of E. A. LEASING CORPORATION, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he

acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

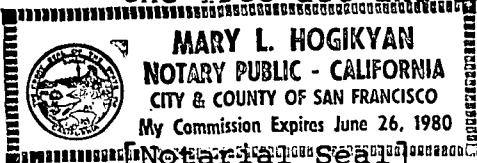
[Notarial Seal]

\_\_\_\_\_  
Notary Public

My Commission expires:

STATE OF CALIFORNIA       )  
                                      : SS.  
*City &* COUNTY OF SAN FRANCISCO)

On this 20th day of June, 1980, before me personally appeared Roderick M. Steele, to me personally known, who, being by me duly sworn, says that he is the President of POTLATCH CORPORATION, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

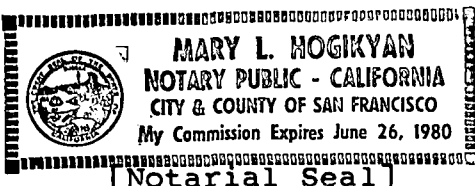


*Mary L. Hogikyan*  
\_\_\_\_\_  
Notary Public

My Commission expires:

STATE OF CALIFORNIA       )  
                                      : SS.  
*City &* COUNTY OF SAN FRANCISCO)

On this 20th day of June, 1980, before me personally appeared Richard V. Warner, to me personally known, who, being by me duly sworn, says that he is the President of ST. MARIES RIVER RAILROAD COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.



*Mary L. Hogikyan*  
\_\_\_\_\_  
Notary Public

My Commission expires:

SCHEDULE A

<u>Quantity</u>	<u>AAR Mechanical Designation</u>	<u>Description</u>	<u>Original Les- see's Road Numbers of Units Deli- vered And Accepted on or Prior to June 30, 1976 (Inclusive)</u>	<u>Original Les- see's Road Numbers of Units Deli- vered and Accepted After June 30, 1976 (Inclusive)</u>	<u>Lessee's Road Numbers (Inclusive)</u>
196	F191	High-stake log flat cars	58505-58616, (excluding 58568 which suffered a casualty prior to the date hereof)	58495-58499 58617-58699 (excluding 58656, 58497 and 58663 which suffered a casualty prior to the date hereof)	

SCHEDULE B\*

Casualty Value Percentages Schedule

Table 1

<u>Rental Payment Date</u>	<u>Percentage of Purchase Price for each Unit delivered and accepted under the Prior Lease on or prior to June 30, 1976</u>	<u>Percentage of Purchase Price for each Unit delivered and accepted under the Prior Lease after June 30, 1976</u>
June 1, 1980	73.99%	74.35%
September 1, 1980	72.12	72.49
December 1, 1980	70.16	70.59
March 1, 1981	68.13	68.62
June 1, 1981	66.02	66.60
September 1, 1981	63.85	64.91
December 1, 1981	61.60	62.81
March 1, 1982	59.68	60.66
June 1, 1982	57.34	58.47
September 1, 1982	54.95	56.23
December 1, 1982	52.52	53.99
March 1, 1983	50.06	51.72
June 1, 1983	47.60	49.42
September 1, 1983	45.15	47.47
December 1, 1983	42.69	45.16
March 1, 1984	40.61	42.84
June 1, 1984	38.22	40.52
September 1, 1984	35.88	38.18
December 1, 1984	33.60	35.89
March 1, 1985	31.36	33.62
June 1, 1985	29.28	31.30
September 1, 1985	27.33	28.81
December 1, 1985	25.51	26.21
March 1, 1986	23.40	23.48
June 1, 1986	20.00	20.00

Table 2

The percentages set forth in Table 1 of this Schedule B have been computed without regard to recapture of the Investment Credit. Consequently, the Casualty Value of any Unit suffering a Casualty Occurrence on or before the third, fifth or seventh anniversary of the date of delivery and acceptance of such Unit under the Prior Lease shall be increased by the applicable percentage of the Reconstruction Cost (said Reconstruction Cost being \$6,630.00) set forth below:

<u>Anniversary of Delivery and Acceptance Under the Prior Lease</u>	<u>Percentage of Reconstruction Cost</u>
Third	19.23%
Fifth	12.82
Seventh	6.41

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\*Computed on basis that advance rental will also be payable in addition to Casualty Value.

EXHIBIT A

TO

LEASE OF RAILROAD EQUIPMENT

CERTIFICATE OF COMMENCEMENT OF LEASE

Reference is made to (i) the Lease of Railroad Equipment dated as of June 2, 1980 (the "Lease"), between E.A. LEASING CORPORATION as Lessor ("Lessor") and POTLATCH CORPORATION as Lessee ("Potlatch"), (ii) Termination Agreement dated as of June 2, 1980 among RICHARD B. OGILVIE, as Trustee for the property of the CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY as Debtor ("Trustee"), E.A. LEASING CORPORATION as Lessor and POTLATCH CORPORATION as Lessee and (iii) Assignment of Lease and Agreement dated as of June 2, 1980 between E.A. LEASING CORPORATION as Lessor and FIRST SECURITY BANK OF UTAH, NATIONAL ASSOCIATION, as Agent, all relating to up to one hundred ninety four (194) log flat cars ("Units").

The Undersigned on behalf of Potlatch hereby certifies that:

(1) He is the authorized officer of Potlatch duly authorized to receive delivery of, inspect and accept the Units on behalf of Potlatch;

(2) The Units whose Road Numbers are listed on attached Schedule 1 (i) have been delivered by the Trustee, (ii) have been inspected by a representative of Potlatch, (iii) conform to all other specifications, requirements and conditions of the Lease, and (iv) are marked in accordance with the requirements of Section 4 of the Lease and Article 8 of the Security Document (as defined in the Lease).

(3) Potlatch acknowledges that some of the Units do not adhere to the specifications, requirements and standards of the Association of American Railroads, the Interstate Commerce Commission and the Department of Transportation and Potlatch agrees to make, within a reasonable period of time, the necessary maintenance and repairs to such Units in order that the Units will conform to those specifications, requirements and standards. Potlatch also agrees to make the necessary maintenance and repairs to any Unit or Units not meeting the specifications, requirements and standards prior to use of such Unit or Units in interchange.

(4) Potlatch has accepted the Units whose Road Numbers are listed on Schedule 1 hereto pursuant to the Lease.

Dated: \_\_\_\_\_

POTLATCH CORPORATION

BY: \_\_\_\_\_  
Authorized Officer

# SCHEDULE 1

MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.	MILW CAR NO.	STMA CAR NO.
58495	<u>300</u>	58535	<u>334</u>	58570	<u>368</u>	58604	<u>402</u>	58638	<u>436</u>	58674	<u>470</u>
58496	<u>301</u>	58536	<u>335</u>	58571	<u>369</u>	58605	<u>403</u>	58639	<u>437</u>	58675	<u>471</u>
58498	<u>302</u>	58537	<u>336</u>	58572	<u>370</u>	58606	<u>404</u>	58640	<u>438</u>	58676	<u>472</u>
58499	<u>303</u>	58538	<u>337</u>	58573	<u>371</u>	58607	<u>405</u>	58641	<u>439</u>	58677	<u>473</u>
58505	<u>304</u>	58539	<u>338</u>	58574	<u>372</u>	58608	<u>406</u>	58642	<u>440</u>	58678	<u>474</u>
58506	<u>305</u>	58540	<u>339</u>	58575	<u>373</u>	58609	<u>407</u>	58643	<u>441</u>	58679	<u>475</u>
58507	<u>306</u>	58541	<u>340</u>	58576	<u>374</u>	58610	<u>408</u>	58644	<u>442</u>	58680	<u>476</u>
58508	<u>307</u>	58542	<u>341</u>	58577	<u>375</u>	58611	<u>409</u>	58645	<u>443</u>	58681	<u>477</u>
58509	<u>308</u>	58543	<u>342</u>	58578	<u>376</u>	58612	<u>410</u>	58646	<u>444</u>	58682	<u>478</u>
58510	<u>309</u>	58544	<u>343</u>	58579	<u>377</u>	58613	<u>411</u>	58647	<u>445</u>	58683	<u>479</u>
58511	<u>310</u>	58545	<u>344</u>	58580	<u>378</u>	58614	<u>412</u>	58648	<u>446</u>	58684	<u>480</u>
58512	<u>311</u>	58546	<u>345</u>	58581	<u>379</u>	58615	<u>413</u>	58649	<u>447</u>	58685	<u>481</u>
58513	<u>312</u>	58547	<u>346</u>	58582	<u>380</u>	58616	<u>414</u>	58650	<u>448</u>	58686	<u>482</u>
58514	<u>313</u>	58548	<u>347</u>	58583	<u>381</u>	58617	<u>415</u>	58651	<u>449</u>	58687	<u>483</u>
58515	<u>314</u>	58549	<u>348</u>	58584	<u>382</u>	58618	<u>416</u>	58652	<u>450</u>	58688	<u>484</u>
58516	<u>315</u>	58550	<u>349</u>	58585	<u>383</u>	58619	<u>417</u>	58653	<u>451</u>	58689	<u>485</u>
58517	<u>316</u>	58551	<u>350</u>	58586	<u>384</u>	58620	<u>418</u>	58654	<u>452</u>	58690	<u>486</u>
58518	<u>317</u>	58552	<u>351</u>	58587	<u>385</u>	58621	<u>419</u>	58655	<u>453</u>	58691	<u>487</u>
58519	<u>318</u>	58553	<u>352</u>	58588	<u>386</u>	58622	<u>420</u>	58657	<u>454</u>	58692	<u>488</u>
58520	<u>319</u>	58554	<u>353</u>	58589	<u>387</u>	58623	<u>421</u>	58658	<u>455</u>	58693	<u>489</u>
58521	<u>320</u>	58555	<u>354</u>	58590	<u>388</u>	58624	<u>422</u>	58659	<u>456</u>	58694	<u>490</u>
58522	<u>321</u>	58556	<u>355</u>	58591	<u>389</u>	58625	<u>423</u>	58660	<u>457</u>	58695	<u>491</u>
58523	<u>322</u>	58557	<u>356</u>	58592	<u>390</u>	58626	<u>424</u>	58661	<u>458</u>	58696	<u>492</u>
58524	<u>323</u>	58558	<u>357</u>	58593	<u>391</u>	58627	<u>425</u>	58662	<u>459</u>	58697	<u>493</u>
58525	<u>324</u>	58559	<u>358</u>	58594	<u>392</u>	58628	<u>426</u>	58664	<u>460</u>	58698	<u>494</u>
58526	<u>325</u>	58560	<u>359</u>	58595	<u>393</u>	58629	<u>427</u>	58665	<u>461</u>	58699	<u>495</u>
58527	<u>326</u>	58561	<u>360</u>	58596	<u>394</u>	58630	<u>428</u>	58666	<u>462</u>		
58528	<u>327</u>	58562	<u>361</u>	58597	<u>395</u>	58631	<u>429</u>	58667	<u>463</u>		
58529	<u>328</u>	58563	<u>362</u>	58598	<u>396</u>	58632	<u>430</u>	58668	<u>464</u>		
58530	<u>329</u>	58564	<u>363</u>	58599	<u>397</u>	58633	<u>431</u>	58669	<u>465</u>		
58531	<u>330</u>	58565	<u>364</u>	58600	<u>398</u>	58634	<u>432</u>	58670	<u>466</u>		
58532	<u>331</u>	58566	<u>365</u>	58601	<u>399</u>	58635	<u>433</u>	58671	<u>467</u>		
58533	<u>332</u>	58567	<u>366</u>	58602	<u>400</u>	58636	<u>434</u>	58672	<u>468</u>		
58534	<u>333</u>	58569	<u>367</u>	58603	<u>401</u>	58637	<u>435</u>	58673	<u>469</u>		

(196